

## LATVIA 2009

### Table of Contents

LATVIA 2009 .....	1
Introduction.....	1
1. Overview of the tax-benefit system .....	2
2. Unemployment insurance.....	2
3. Unemployment assistance.....	9
4. Social assistance.....	9
5. Housing benefits for rented accommodation .....	13
6. Family benefits.....	15
7. Childcare for pre-school children.....	17
8. Employment-conditional benefits .....	20
9. Lone-parent benefits .....	201
10. Tax system .....	22
11. Part-time work.....	26
12. Policy developments .....	26
Social security contributions to general government.....	30
Social security contributions paid to institutions outside general government.....	30
Payroll taxes.....	30

### Introduction

Tax-benefit policy “country chapters” are made available as part of the OECD series *Benefits and Wages*. They provide detailed descriptions of tax and benefit rules in a consistent format across countries and summarize recent policy changes.

Country chapters for other countries and years are available on the Internet at [www.oecd.org/els/social/workincentives](http://www.oecd.org/els/social/workincentives).

## 1. Overview of the tax-benefit system

The tax and fees system in Latvia consists of state taxes, state fees, local government fees, directly applicable taxes and other obligatory payments set in European Union regulatory enactments and social insurance contributions.

There exists a three-tier system of social benefits in Latvia:

- 1) state social insurance benefits which are earnings related and based on social insurance contributions;
- 2) state social benefits which are flat-rated and with universal coverage of population;
- 3) means-tested benefits provided within the system of social services and municipal social assistance.

State social insurance benefits guarantee a person a certain substitute for income in the event of social risk and are provided only for socially insured people. Individuals are insured and social insurance contribution payments are made in respect of those social risks that may actually affect them. Social insurance contributions guarantee security to person in case of old-age, death, unemployment, disability, maternity (paternity), child care (parental benefit), sickness, accidents at work and occupational diseases.

State social benefits provide universal state support in the form of cash payments for certain groups of the population in cases related to the arising of additional expenditures, in which the social insurance system does not provide for security (for example, family benefit, child care and child birth benefits, state social security benefit, that provides security in case of loss a parent etc.).

Housing costs are covered through a separate means-tested scheme in terms of social services and social assistance system. There is a social assistance scheme which guarantees a minimum income for every inhabitant of the country, as also provides other means-tested benefits in special cases as final safety net.

As concerns social benefits, only pensions (old-age pension, long service pension, disability pension, survivor's pension) and sickness benefit are taxable.

### 1.1. Average Worker wage (AW)

The 2009 AW earnings level is LVL **5843.04**.

## 2. Unemployment insurance

The operation of the unemployment insurance system in Latvia is regulated by the **Law “On Insurance against Unemployment”**, adopted by the Parliament on 25 November 1999 (became effective on 1 January 2000), - which was elaborated on the basis of previous Law “On Compulsory Social Insurance against Unemployment”, enacted by the Parliament on 5 October 1995 (in force since 1 January 1997) – for improvement of the state social insurance scheme relating to unemployment.

The purposes of the Law are as follows:

- to ensure income substitution in the event of unemployment;
- to ensure the amount of the unemployment benefit in proportion to the individual contribution wage, the insurance period and the length of the time during which the benefit is received;
- to stimulate the unemployed person to seek job actively, to improve existing qualification and to undergo retraining.

Reference date for all information is July 1<sup>st</sup> 2009

Country chapter for OECD series *Benefits and Wages* ([www.oecd.org/els/social/workincentives](http://www.oecd.org/els/social/workincentives))

The Law “On Insurance against Unemployment” provides passive unemployment insurance services (unemployment benefit in cash; funeral benefit in case of the demise of the unemployed; stipend for the period of professional training or re-qualification of the unemployed). The granting and payment of unemployment benefits and other passive unemployment insurance services ensures the State Social Insurance Agency. Passive unemployment insurance services determined by the law “*On Insurance against Unemployment*” are financed by the state social insurance special employment budget. Active employment activities are funded by Special Employment Budget set forth under the *Support for Unemployed Persons and Persons Seeking Employment Law*, however within the amount not exceeding 10% of the total Special Employment Budget determined by the *Law On Annual Budget*, which determines a particular amount of Special Employment Budget for financing of active employment activities.

## 2.1 *Conditions for receipt*

The rights to unemployment benefit have persons who obtain an unemployed status and who also have unemployment insurance.

Persons who are not citizens or non-citizens of Latvia, who are not permanent residents of Latvia or who have not received a temporary residence permit and also are not married persons with Latvian citizens, non-citizens or permanent residents of Latvia have rights to get unemployment benefit in accordance with the *Council Regulation (EEC) No 1408/71 on the application of social security schemes to employed persons, to self-employed persons and to members of their families moving within the Community*.

Eligibility for unemployment benefit doesn't depends on whether the job loss is “voluntary” or not. But voluntarily dismissal affects the granting procedure of unemployment benefit. If a person has become an unemployed after the termination of work or service on the basis of his or her notice (voluntary) or due to a violation, the unemployment benefit shall be granted from the day when the unemployed person has submitted all the documents certifying the right to the benefit, but not earlier than two months after the day when the status of an unemployed person was obtained. Two months waiting period has been introduced in order to motivate every person to retain his (her) workplace and does not violate labour contract and working regulations.

In order to become (and remain) entitled to the unemployment benefit for person is necessary to obtain (and retain) an unemployed status. A person has the rights to unemployment status if the person is seeking employment. In accordance with the *Support for Unemployed Persons and Persons Seeking Employment Law* Unemployed persons have a duty to:

- actively seek employment independently and with the assistance of the State Employment Agency and after the acquisition of unemployed person status provide without delay proposals to the State Employment Agency for the development of an individual employment seeking plan;
- on the day specified in the individual employment seeking plan attend the State Employment Agency and present the documents specified in regulatory enactments;
- attend the State Employment Agency within a time period of three days from the day of receipt of an invitation;
- participate in measures provided for in the individual employment seeking plan.

### 2.1.1 *Employment conditions*

The rights to unemployment benefit have persons who obtain an unemployed status in accordance with the *Support for Unemployed Persons and Persons Seeking Employment Law*.

A person has the rights to unemployment status after registration with the State Employment Agency in conformity with the principal place of residence if the person:

Reference date for all information is **July 1<sup>st</sup> 2009**

Country chapter for OECD series *Benefits and Wages* ([www.oecd.org/els/social/workincentives](http://www.oecd.org/els/social/workincentives))

- 1) does not work (is not considered to be an employee or a self-employed person) in accordance with the Law On State Social Insurance);
- 2) is seeking employment;
- 3) is able to work and ready to enter into labour relations immediately;
- 4) has reached 15 years of age;
- 5) has not reached the age necessary for the granting of the State old age pension;
- 6) is not acquiring an education by being present at a general secondary or vocational secondary education institution, excluding evening school;
- 7) does not perform commercial activities or his or her commercial activities have been suspended in accordance with regulatory enactments; and
- 8) is not completely State supported.

The person for whom invalidity has been determined shall also be considered to be able to work except in cases where the Medical Commission for Expert-Examination of Health and Working Ability has determined a loss of ability to work of 100 per cent.

If a person on the day of registration has a temporary illness, the State Employment Agency shall grant such person unemployed person status after the end of the temporary illness.

The basis for the loss of unemployment status shall be:

- 1) the acquisition of status of the employee or self-employed person for an indefinite period of time or for a time period longer than two months in accordance with the Law On State Social Insurance, except engaging in the active employment measures;
- 2) reaching the age necessary for the granting of the State old age pension, receipt of a service pension or State special pension;
- 3) coming under complete State support;
- 4) commencing the acquisition of education by being present at a general secondary or vocational secondary education institution, excluding evening school;
- 5) refusal of an appropriate offer of employment twice;
- 6) failure to fulfil the duties of an unemployed person without a justified reason;
- 7) provision of false information in order to acquire and retain unemployment status;
- 8) moving for permanent residence outside the European Union if not specified otherwise in international agreements binding upon Latvia;
- 9) the loss of work ability of 100 per cent;
- 10) renewal of employment through a court judgment; or
- 11) death of the unemployed person.
- 12) waiver of unemployed person status by submitting a relevant notification to the State Employment Agency.

Unemployment benefit is granted as of the day the unemployed filed all the documents, showing the right for the benefit (including statement from the State Employment Agency about granting of unemployment status).

The unemployment benefit for a person, who has become unemployed after terminating employment voluntarily or due to a violation, is to be granted not earlier than two months as of the day of obtaining of the unemployed status. The main purpose of this was to prevent voluntarily dismissals of employed persons by the prolongation of the period after which unemployment benefit is granted.

### 2.1.2 *Contribution conditions*

Unemployment benefit is granted to an unemployed person who has registered as unemployed and who can prove that mandatory social insurance contributions for the case of unemployment are made on his/her

Reference date for all information is **July 1<sup>st</sup> 2009**

Country chapter for OECD series *Benefits and Wages* ([www.oecd.org/els/social/workincentives](http://www.oecd.org/els/social/workincentives))

behalf within a period of not less than 9 months within the last preceding 12 months before obtaining of the status of unemployed (**till 1<sup>st</sup> July 2009** - not less than 12 months within the last preceding 18 months before obtaining of the status of unemployed).

If within the last preceding 12 months before obtaining of the status of unemployed the contributions for the case of unemployment are made on behalf of the unemployed for the period of less than 9 months, and also for the period after obtaining of the status of unemployed, then unemployment benefits are determined on the basis of the contributions made during the preceding 12 months before the day when unemployment benefit is requested.

If within a period of the last preceding 12 months before obtaining of the status of unemployed contributions for the case of unemployment are not made on behalf of unemployed, or are made for the period of less than 9 months, the unemployed is entitled to the unemployment benefits provided, in the respective period, the unemployed was within the category of the following persons:

- 1) regained work ability after disability;
- 2) caretaker for the minor until the age of 16.

The period of qualification for the unemployment benefit (period within the contributions for the case of unemployment shall be made) has been decreased from 12 to 9 months **from the 1<sup>st</sup> July 2009** in order to facilitate the qualifying for the unemployment benefit and extend the coverage of population by the unemployment insurance scheme, what is necessary measure in the obstacles of rapid growth of unemployment rate in Latvia.

The amount of social insurance contributions covered unemployment insurance is 1,70% on the total social insurance contributions payments. The total rate of compulsory social insurance contribution if the employee is insured for all social insurance kinds is 33,09%.

Insurance period, entitling for the unemployment benefits is comprised of the following:

- 1) the period for which the contributions for the case of unemployment are made in accordance with the Law On State Social Insurance (the Law On State Social Insurance came into force on 1 January, 1998);
- 2) the periods of work or equal to work accrued until 1 January, 1991;
- 3) the periods of work accrued from 1 January, 1991 until 1 January, 1996, for which the social tax payments are made;
- 4) the periods for which the social tax payments are made for the period from 1 January, 1996 until 31 December, 1997 made in accordance with the law On Social Tax.

## **2.2 Calculation of benefit amount**

For the unemployed, who until the day of obtaining of the status of the unemployed was an employee, the benefit amount is determined in proportion to the insurance period, and his/her income, from which unemployment contributions are made in accordance with the Law On State Social Insurance:

- 1) with an insurance period from one to nine years (inclusive): within the amount of 50% from average insurance contribution wage;
- 2) with an insurance period from ten to nineteen years (inclusive): within the amount of 55% from average insurance contribution wage;
- 3) with an insurance period from twenty to twenty-nine years (inclusive): within the amount of 60% from average insurance contribution wage;
- 4) with an insurance period above thirty years (inclusive): within the amount of 65% from average insurance contribution wage.

Reference date for all information is **July 1<sup>st</sup> 2009**

Country chapter for OECD series *Benefits and Wages* ([www.oecd.org/els/social/workincentives](http://www.oecd.org/els/social/workincentives))

For the unemployed on behalf of which before the day of obtaining of the status of the unemployed the contributions for the case of unemployment are made from the state basic budget, and for the unemployed regained work ability after disability or which has been caretaker for the minor until the age of 16, the benefit is determined within the amount of 60 percent of the state social security benefit double amount being in force as of the day of requesting an unemployment benefit (the actual amount of state social security benefit is 45 LVL per month).

For an unemployed person for whom the requester of the benefit himself or herself and his or her employer had made unemployment insurance contributions for a part of the contributions period prior to the day when the status of an unemployed person was obtained, but for the other part – the State, the amount of the unemployment benefits to be granted shall be determined in proportion to length of period of insurance and depending on the average wage subject to insurance contributions.

If an unemployed person at the end of the contributions period did not have the employee status and before the day of obtaining of the status of the unemployed the contributions for the case of unemployment are made from the state special social insurance budget, the amount of the unemployment benefits to be granted shall be determined:

- 1) in proportion to length of period of insurance and depending on the average wage subject to insurance contributions, if insurance contributions were made from sickness or maternity benefit;
- 2) within the amount of 60 percent of the state social security benefit double amount being in force as of the day of requesting an unemployment benefit, if insurance contributions were made from 50 LVL of parent's benefit.

For an unemployed person for whom both, the requester of the benefit himself or herself and his or her employer and the state, had concurrently made unemployment insurance contributions prior to the day when the status of an unemployed person was obtained, the unemployment benefits shall be granted in proportion to length of period of insurance and depending on the average wage subject to insurance contributions.

The unemployment benefit amount also depends on the length of unemployment. In order to prevent malignant using of unemployment benefits and promote employment in the state in 2007 were elaborated and on 1 January 2008 came in force amendments to the Law "On insurance in case of unemployment", which has defined differentiation of unemployment benefit payment period in dependence from insurance record of unemployed person:

- for persons with the insurance record from 1 – 9 years: 4 months;
- for persons with the insurance record from 10 – 19 years: 6 months;
- for persons with the insurance record over 20 years: 9 months.

But from the **1<sup>st</sup> July 2009** the length of unemployment benefit disbursement has been increased on a temporary basis and for the period from the 1<sup>st</sup> July 2009 till 31<sup>st</sup> December 2011 the total length of unemployment benefit payment for all groups of unemployed is 9 months. The unemployment benefit within above mentioned period of time shall be paid in such amounts:

- 1) for persons with the insurance record from 1 – 9 years:
  - first 2 months of unemployment: 100% of set benefit,
  - from 3-4 months of unemployment: 75% of the set benefit,
  - from 5-9 months of unemployment constant sum – 45 LVL per month
- 2) for persons with the insurance record from 10 – 19 years:
  - first 2 months of unemployment: 100% of set benefit,
  - from 3-4 months of unemployment: 75% of the set benefit,
  - from 5-6 months of unemployment: 50% of the set benefit;
  - from 7-9 months of unemployment constant sum – 45 LVL per month
- 3) for persons with the insurance record over 20 years:

Reference date for all information is **July 1<sup>st</sup> 2009**

Country chapter for OECD series *Benefits and Wages* ([www.oecd.org/els/social/workincentives](http://www.oecd.org/els/social/workincentives))

- first 3 months of unemployment: 100% of set benefit,
- from 4-6 months of unemployment: 75% of the set benefit,
- from 7-9 months of unemployment: 50% of the set benefit.

The unemployment benefit decreases over time in order to motivate every unemployed person and especially those who receive low benefit amounts to return to the labour market a.s.a.p.

The average insurance contributions wage (incomes from which state social insurance contributions are made) for determining unemployment benefit is calculated from the person's insurance contributions wage for a six month period, such period ending two calendar months prior to the month in which the person became unemployed.

On the 16 June 2009 the Saeima adopted amendments to the law "On insurance against unemployment" which provide the increase of calculating period of average insurance contributions wage from six months period to 12 months period such period ending two calendar months prior to the month in which the person became unemployed on 1<sup>st</sup> January 2010.

In accordance with amendments adopted in the Saeima on 1<sup>st</sup> December 2009 to the law "On state pensions and state benefits payment during period from the year 2009 till the year 2012" on a temporary basis – from the 1<sup>st</sup> January 2010 till the 31<sup>st</sup> December 2012 unemployed person will receive full sum of unemployment benefit with a precondition that the benefit's amount per day is lower or equal to 11,51 LVL. If the amount of the benefit per day is higher than 11,51 LVL, the person will get full sum of that part of the benefit, which does not exceed 11,51 LVL per day and half (50 percent) of the sum of that part of the benefit, which exceeds 11,51 LVL per day.

In the period from 1 of January to 1 of July of 2009 the average amount of unemployment benefit was 179,13 LVL.

### 2.2.1 *Calculation of gross benefit*

Unemployment benefit is earnings related benefit which amount depends from persons' social insurance contributions wage. Average amount of unemployment benefit by length of the insurance period was:

insurance record	% of average social insurance contributions wage	average amount of benefit in LVL (in the period from 1 January to 1 July, 2009)
insurance record from 1 to 9 years	50%	167,01
insurance record from 10 to 19 years	55%	180,43
insurance record from 20 to 29 years	60%	194,88
Insurance record above 30 years	65%	223,90

### 2.2.2 *Income and earnings disregards for benefit recipients and those starting a new job*

No disregards.

### 2.3 *Tax treatment of benefit and interaction with other benefits*

Non-taxable.

Reference date for all information is **July 1<sup>st</sup> 2009**

Country chapter for OECD series *Benefits and Wages* ([www.oecd.org/els/social/workincentives](http://www.oecd.org/els/social/workincentives))

## **2.4**      *Benefit duration and waiting periods*

Till the 1<sup>st</sup> July 2009 duration of payment of unemployment benefit depends from the social insurance record of person:

- for persons with the insurance record from 1 – 9 years: 4 months;
- for persons with the insurance record from 10 – 19 years: 6 months;
- for persons with the insurance record over 20 years: 9 months.

**From the 1<sup>st</sup> July 2009** the length of unemployment benefit disbursement has been increased on a temporary basis and for the period from the 1<sup>st</sup> July 2009 till 31<sup>st</sup> December 2011 the total length of unemployment benefit payment for all groups of unemployed is 9 months.

If within the time period of 12 months a person is being repeatedly granted unemployment benefits, it shall be granted, taking into account the duration (in calendar days) of the receipt of the preceding unemployment benefits granted and percentage differentiation of amount in such period.

The disbursement of unemployment benefit shall be suspended if an unemployed person:

- enters into a contract of employment regarding paid temporary performance of public works or enters into a contract of employment regarding participation in other active employment measures specified in the Support for Unemployed Persons and Persons Seeking Employment Law; or
- obtains the status of an employee in accordance with the Law On State Social Insurance for a time period of up to two months (inclusive);
- receives the sickness benefit in accordance with the law “On maternity and sickness insurance”.

The time period when the disbursement of unemployment benefits is suspended shall not be included in the time period for what benefit is granted.

The disbursement of unemployment benefits shall be discontinued if a person loses the status of an unemployed person, the State Agency of Social Insurance states, that person received unemployment benefit unlawfully, or if person was died.

In most cases the unemployment benefit is repeatedly granted, if disbursement of preceding unemployment benefit had been discontinued and a person lost the status of an unemployed person due to temporary work (obtained the employee status for a time period more than two months) and after loss of temporary work has reapplied for unemployment benefit.

After expiration of the disbursement term of unemployment benefit a person can pretend on next unemployment benefit only after unemployment insurance contributions have been made for not less than 9 months in time period of 12 months.

There is no waiting period for unemployment benefit. Unemployment benefits shall be granted from the day when an unemployed person has submitted all the documents, which certify the right to the benefit. Only to a person who has become an unemployed person after the termination of work or service on the basis of his or her notice or due to a violation benefits shall be granted not earlier than two months after the day when the status of an unemployed person was obtained.

## **2.5**      *Treatment of particular groups*

None.

Reference date for all information is **July 1<sup>st</sup> 2009**

Country chapter for OECD series *Benefits and Wages* ([www.oecd.org/els/social/workincentives](http://www.oecd.org/els/social/workincentives))

2.5.1 *Young persons*

2.5.2 *Older workers*

2.5.3 *Others if applicable*

[e.g. lone parents, immigrants, part-time employees, self-employed, disabled]

### **3. Unemployment assistance**

None

#### **3.1 Conditions for receipt**

3.1.1 *Employment conditions*

3.1.2 *Contribution conditions*

#### **3.2 Calculation of benefit amount**

3.2.1 *Calculation of gross benefit*

3.2.2 *Income and earnings disregards for benefit recipients and those starting a new job*

#### **3.3 Tax treatment of benefit and interaction with other benefits**

#### **3.4 Benefit duration and waiting periods**

#### **3.5 Treatment of particular groups**

3.5.1 *Young persons*

3.5.2 *Older workers*

3.5.3 *Others if applicable*

### **4. Social assistance**

Social assistance is residual social benefits, which acts as final safety net. Social assistance is financed from local municipalities budgets and is granted to households or separately living persons, whose place of residence is situated in municipalities' territory. According to law there are 4 main types of social assistance benefits. Each has his own conditions of granting.

Types of Social Assistance Benefits:

- 1) Benefit for ensuring guaranteed minimum income level (GMI benefit);
- 2) Housing benefit;
- 3) Benefit in an emergency situation;
- 4) Other benefits defined by municipalities.

Reference date for all information is **July 1<sup>st</sup> 2009**

Country chapter for OECD series *Benefits and Wages* ([www.oecd.org/els/social/workincentives](http://www.oecd.org/els/social/workincentives))

#### **4.1 Conditions for receipt**

Social assistance to a client shall be provided on the basis of an evaluation of his or her material resources – income and property, individually providing for the participation of each client in conformity with the Law On Social Security.

Measuring resources of client regarding the following benefits are not consider: supplements to the allowance for child care for twins or more children born during one delivery, first 100 lats from parental allowance, state family allowance and a supplement to the state family benefit for a disabled child, care of disabled child benefit, benefit for disabled who is needing for care, benefit for a child with celiac disease, an allowance for the compensation of transport expenses for disabled persons who have difficulties in movement, childbirth allowance, funeral benefit, allowance and compensation for rent and transport expenditures during occupational training, retraining and raising of qualifications of unemployed persons.

#### ***Changes from 01.12.2009 (related to the economic crisis)***

Measuring resources of client regarding the following benefits are not consider: supplements to the allowance for child care for twins or more children born during one delivery, first 50 lats from parental allowance, a supplement to the state family benefit for a disabled child, care of disabled child benefit, benefit for disabled who is needing for care, benefit for a child with celiac disease, an allowance for the compensation of transport expenses for disabled persons who have difficulties in movement, childbirth allowance, funeral benefit, allowance during occupational training, retraining and raising of qualifications of unemployed persons.

##### ***4.1.1. GMI benefit***

The GMI benefit shall be granted and paid to a household or separately living person which income level is lower than GMI level, set by Cabinet of Ministers. GMI benefit is paid on the basis of net income and assets test (means test). GMI benefit can be paid in cash or in kind.

Adult claimants of GMI benefit have an obligation to fulfil the duties of participation prescribed in the Law On Social Security.

GMI benefit reception doesn't affect the right of person to claim additional social assistance benefits.

##### ***4.1.2. Housing benefit***

Established by local municipality's regulation. Can be paid in cash or in kind.

##### ***4.1.3. Benefit in an emergency situation***

The local government grants without means testing to the person (family) a benefit in an emergency situation if, due to a natural disaster or unforeseen circumstances he or she is not able to satisfy his or her basic needs.

The benefit in an emergency situation can be paid in cash or in kind.

##### ***4.1.4 Other benefits***

Established by local municipality's regulation. Can be paid in cash or in kind.

#### ***Changes from 01.12.2009***

Reference date for all information is **July 1<sup>st</sup> 2009**

Country chapter for OECD series *Benefits and Wages* ([www.oecd.org/els/social/workincentives](http://www.oecd.org/els/social/workincentives))

Municipalities have an obligation of granting other benefits on the basis of means-test and for aims related to people's basic needs.

## **4.2 Calculation of benefit amount**

### **4.2.1 Calculation of gross benefit**

#### **4.2.1.1. GMI**

GMI benefit is calculated as a difference between GMI level per person (37 LVL for January - September 2009) and households income per capita or separately living person's income. Calculation of the benefit does not involve application of the equivalence scale – the calculated GMI benefit is equal to all adults and children in the family.

Amount of GMI benefit = GMI level per person – household income per capita

Maximum amount GMI benefit per month:

separately living person	Household
37 LVL	135 LVL

In cases of refusing to fulfil duties of participation total amount of GMI benefit reduces by part of adult who refused.

The local municipalities are eligible to determine the local level of GMI, but not below the national.

#### **Changes from 01.12.2009 ( related to the economic crisis)**

GMI level is set 40 LVL per month for adult and 45,-LVL per month for child under 18.

GMI benefit is calculated as a difference between GMI level for household and households income or separately living person's income. Calculation of the benefit does not involve application of the equivalence scale – the calculated GMI benefit is equal to all adults and children in the family.

Amount of GMI benefit =  $(GMI_{ad} \times n_{ad} + GMI_{ch} \times n_{ch}) - \text{household income}$

$GMI_{ad}$  – GMI level for adults

$GMI_{c}$  – GMI level for child

$n_{ad}$  – number of adults in household

$n_{ch}$  - number of children in household

The local municipalities are eligible to determine the level of GMI for persons, receiving old-age pension or disability pension, but not below 40,- LVL and not above 90,-LVL per month.

There is no limit for maximum amount of GMI benefit for household.

#### **4.2.1.2. Housing benefit**

Established by local municipality's regulation (see Section 5).

Reference date for all information is **July 1<sup>st</sup> 2009**

Country chapter for OECD series *Benefits and Wages* ([www.oecd.org/els/social/workincentives](http://www.oecd.org/els/social/workincentives))

#### *4.2.1.3 Benefit in an emergency situation*

According to type of emergency situation and depends on decision of local municipality.

#### *4.2.1.4. Other benefits*

Established by local municipality's regulation.

#### *4.2.1.4 Irregular additional payments*

#### *4.2.1.5 Obligations of family members*

#### *4.2.2 Income and earnings disregards for benefit recipients and those starting a new job*

See Section 4.1

### **4.3 Tax treatment of benefit and interaction with other benefits**

Non-taxable.

### **4.4 Benefit duration and waiting periods**

#### *4.4.1. GMI benefit*

GMI benefit is granted for the period of 3 months and is renewable after that.

#### *4.4.2. Housing benefit*

Established by local municipality's regulation.

#### *4.4.3. Benefit in an emergency situation*

Established by local municipality's regulation.

#### *4.4.4. Other benefits*

Established by local municipality's regulation.

### **4.5 Treatment of particular group**

#### *4.5.1 Young persons*

GMI level for child under 18 is set 45 LVL per month **since 01.12.2009**

#### *4.5.2 Older workers*

None

#### *4.5.3 Others if applicable*

**4.5.3.1. Families with children** – in case adults fulfill their duties of co-participation amount of GMI benefit for family can exceed maximum (135 LVL) - for period January-September 2009.

Since July 2009 local municipalities are eligible to determine supplement to GMI benefit for families with children.

## **5. Housing benefits for rented accommodation**

The autonomous functions of local governments are to provide assistance to residents in resolving issues regarding housing. To ensure material support for families or separately living persons with low income to pay rent and public utilities local municipalities are entitled to provide housing benefit.

As the housing costs and rules defining whether a family or a person is eligible to receive the benefit vary geographically, a “typical” region, the capital Riga, is chosen.

Housing benefits are granted and paid by social services of Riga suburbs (regions) at the place of residence declared by the claimant and that is the place where claimant is actually living. The rights to housing benefits are entitled to households or separately living persons (assistance claimant) being unable to meet elementary requirements. According to the Law on Social Services and Social Assistance, a dwelling is one of the elementary requirements.

There are different kinds of payment (payments to public utility services, fire wood charges etc.), covered by housing benefit. In case of housing debts triangular agreement is concluded and municipality has right to grant an increased amount of housing benefit to state pension receivers, recipients of state social security benefit and families with minors.

### **5.1 Conditions for receipt**

Conditions of receipt are established by local municipality’s regulation. Housing benefit is income-tested benefit.

### **5.2 Calculation of benefit amount**

#### **5.2.1 Calculation of gross benefit**

Housing benefit is estimated as a difference between the GMI level set by Riga municipality (GMI\*) for assistance claimant and the amount of consumption standards of living space and public utility service and total income of the assistance claimant:

$$P = \text{GMI}^* + K - I$$

P – amount of housing benefit;

GMI\* – level of guaranteed minimum income set by Riga municipality for the assistance claimant;

K – consumption standards of living space and public utility service (limit for actual costs);

I – income of assistance claimants (including the benefit received in the respective month to ensure the GMI level). In 2009 the income of claimant must not exceed 250 LVL per month for separately living person and 200 LVL per month per person in household.

Housing benefit is calculated and paid each month.

The calculation of maximum housing costs is complicated and depends on the different types of dwellings.

Reference date for all information is July 1<sup>st</sup> 2009

Country chapter for OECD series *Benefits and Wages* ([www.oecd.org/els/social/workincentives](http://www.oecd.org/els/social/workincentives))

In order to calculate the housing benefit the results of Household Budget Survey (see table below) as the actual housing costs are used and amount of 20% of Average Worker wage (AW) – as the limit (consumption standards) for the actual housing costs.

### Composition of consumption expenditures by number of persons, 2008

(average per household member per month, LVL)

	<i>Households</i>				
	<i>1 person</i>	<i>2 persons</i>	<i>3 persons</i>	<i>4 persons</i>	<i>5 and more persons</i>
Consumption expenditure - TOTAL	303.14	256.43	245.11	209.34	168.20
Housing, water, electricity, gas and other fuels (excluded communications)	53.72	33.70	26.10	20.22	15.81

(Data source: Central Statistical Bureau)

For instance, for a single person under Social Assistance (SA), the limit of actual housing costs are LVL 644.64 (53.72 \*12) and that are smaller than assumed housing costs – 20% of the AW (LVL 1168.61 – data of 2009). The costs above 644.64 are ignored when the housing benefit is calculated.

#### 5.2.2 *Income and earnings disregards*

It is possible to receive the housing benefit together with other social assistance benefits.

The following kinds of income are excluded from calculation of housing benefit:

- 1) childbirth allowance;
- 2) child care benefit;
- 3) supplements to the allowance for child care for twins or more children born during one delivery
- 4) first 100 lats from parental allowance,
- 5) state family allowance and a supplement to the state family benefit for a disabled child
- 6) care of disabled child benefit
- 7) benefit for a child with celiac disease
- 8) benefit for disabled who is needing for care
- 9) an allowance for the compensation of transport expenses for disabled persons who have difficulties in movement
- 10) funeral benefit
- 11) allowance and compensation for rent and transport expenditures during occupational training, retraining and raising of qualifications of unemployed persons, as well as the amount of such allowance and compensation

The assistance claimant must complete the livelihood declaration where household income and housing expenditure are indicated. Able-bodied benefit claimants must declare their income in every 3 months while families without able-bodied persons must do it in every 6 months.

In Riga the assistance ability of single breadwinners is not taken into account. When estimating the assistance amount, only net income is taken into account. The income, from which the income tax and state social insurance contributions are paid, is declared only after payment of the income tax and social insurance contributions.

The following kinds of income are declared in the assistance claimant's declaration of livelihood:

- 1) income from paid employment, pensions, benefits, stipends, means of subsistence, student's loan, income from national support programs (in cash) - the last three months;

Reference date for all information is **July 1<sup>st</sup> 2009**

Country chapter for OECD series *Benefits and Wages* ([www.oecd.org/els/social/workincentives](http://www.oecd.org/els/social/workincentives))

- 2) Income from economic activity, royalties and fees, rent (lease) and confiscation of real property, rent and confiscation of movables - the last 12 months;
- 3) donations, legacies, dividends and winnings - the last 12 months;
- 4) financial support of a spouse living separately - the last 12 months;
- 5) other income – last 12 months.

#### 5.2.3 *Costs eligible for housing benefits*

### 5.3 *Tax treatment of benefit and interaction with other benefits*

Benefits are not liable to a tax.

### 5.4 *Treatment of particular groups*

GMI levels for different population groups set by Riga City Council that influence the amount of housing benefit:

- 1) for adults – 40 LVL per month;
- 2) for children (under 18) – 45 LVL per month;
- 3) for disability and old-age pensioners – 90 LVL per month.

#### 5.4.1 *Young persons*

#### 5.4.2 *Older workers*

#### 5.4.3 *Others if applicable*

## 6. **Family benefits**

### 6.1 *Conditions for receipt*

Family state benefit shall be granted to a person (parents or care-giver) that is raising a child, which is not older than 15; or, if older than 15, attends general or professional educational school and is not married. In such a case the mentioned benefit shall be granted for a period while a child attends the corresponding educational establishment, but only until the date when the mentioned person reaches 19 years of age or marries. If a child under the custody reaches 18 years of age, the benefit shall be granted to the child himself/herself due to reaching a lawful age. The benefit shall not be granted for a child that, in accordance with the number of places financed by state or municipality, is admitted to professional educational programs and receives a scholarship.

In accordance with amendments adopted by the Saeima in 16 June 2009 to the law “On state social benefits”, **from the 1<sup>st</sup> July 2009** the family state benefit shall be paid for each child till the age of 19 years, if child continue to study (payment period reduced on one year), but for children who will born after 3 May 2010 the family state benefit shall be provided only to children, which reached one year (not from the day of birth as currently).

Currently the system of family benefit regards persons as dependent children no longer than till the age of 19 years. In the case of lone parent (see section 9.1.) the payment of state social security benefit shall be carried on if after reaching the lawful age, a person attends general or professional educational establishments and is not older than 20 or studies at day department (full time education) of any higher educational establishment and is not older than 24.

## **6.2 Calculation of benefit amount**

### **6.2.1 Calculation of gross benefit**

The amount of family state benefit for the first child in a family is 8 LVL per month. . From the 1<sup>st</sup> July 2009 on a temporary basis (in accordance with the law “On state pensions and state benefits payment during period from the year 2009 till the year 2012” adopted in Saeima on the 16<sup>th</sup> June 2009) the family state benefit was reduced to the amount of the flat sum of 8 LVL per month per each children, without regarding the differentiation of benefit’s amount in dependence from the number of children in a family. (**Until July 2009** the benefit ranged from 8 LVL per month for the first child in family to 14,40 LVL for fourth and further children).

Within family benefits there are following supplementary benefits available for parents or care-giver (guardian):

- *Supplement to family state benefit for disabled child.* If family state benefit is granted for a handicapped child under 18, an additional payment at the amount of 75 LVL per month shall be granted additionally to the mentioned benefit. A person that raises a disabled child keeps the right to receive this supplement regardless the payment of a family state benefit until the child reaches 18.
- *Child birth benefit.* Child birth benefit is granted to one of the child’s parents or to a person who took a guardianship of a child until one year of age. Right to receive the child birth benefit is entitled of 8<sup>th</sup> day after the child has born or since day when guardianship is established. The amount of child birth benefit is 296 LVL for every born child (one-off payment). Additionally to the benefit amount shall be granted an additional payment at the amount of 100 LVL for the first child birth, 150 LVL for the second child birth and 200LVL for the third child and the next children birth. Before April 2010, parents will receive a one-off childbirth allowance (birth grant) of 296 LVL with above mentioned additional payments. From July 2009, additional payments for the birth grant were abolished and for all children born after April 2010 birth grants shall be paid at the amount of 296 LVL (without additional payment).
- *Care of disabled child benefit,* which is granted to a person who cares for a child for whom the State Medical Commission for Expert-Examinations of Health and Working Ability has specified invalidity and issued an opinion regarding the necessity for special care in relation to serious physical and functional disorders. The payment of care of disabled child benefits shall be terminated when the time period ends for which the invalidity and the necessity for special care have been specified, or when the child reaches the age of 18 years. The amount of the care of disabled child benefit is 150 LVL per month. The state also covers social insurance contribution payments on behalf of persons receiving disabled child care benefit amounting to 20% from 50 LVL.

#### **6.2.1.1 Irregular additional payments**

#### **6.2.2 Income and earnings disregards**

No disregards.

## **6.3 Tax treatment of benefit and interaction with other benefits**

Non-taxable.

Reference date for all information is **July 1<sup>st</sup> 2009**

Country chapter for OECD series *Benefits and Wages* ([www.oecd.org/els/social/workincentives](http://www.oecd.org/els/social/workincentives))

#### 6.4 Treatment of particular groups

No special rules.

6.4.1 *Young persons*

6.4.2 *Older workers*

6.4.3 *Others if applicable*

### 7. Childcare for pre-school children

In compliance with the Law on Education pre-school establishments carry out a pre-school education programme that is the first phase of education.

Pre-school establishments that are registered in the Register of Education Institutions of the Republic of Latvia and have been granted a licence for their pre-school education programmes implement pre-school education. As of 1 September 2009 586 pre-school establishments are carrying out their pre-school programmes (549 general and 37 special pre-school establishments) These establishments are founded and maintained by local governments and private persons.

Number of children in the pre-school childcare institutions by year of birth (on the 1 <sup>st</sup> September, 2009; general schools, special schools, interest centres are not included)									
	Total	2009	2008	2007	2006	2005	2004	2003	2002
Number of children	72111		1924	9465	14457	15524	15079	14746	916
of which									
disabled	504		3	20	80	103	120	129	49
the staying of which is partially paid by the Social Service of municipality	2769	-	-	-	-	-	-	-	-
Included in the waiting list	37518	-	-	-	-	-	-	-	-

(Data source: Ministry of Education and Science)

Ministry of Education and Science (hereinafter “Ministry”) the Ministry is the leading state

Number of children in the pre-school childcare institutions by year of birth and type of group (on the 1st September, 2009; general schools, special schools, interest centres are not included)				
	Total	of which born in		
		2007 and later	2005 and 2006	2007 and later
Number of children	72111	11389	29981	30741
of which groups with length of staying per day				
< 7 hours	680	130	191	359
7 - 12,5 hours	65206	10309	27274	27623
12,6 - 14 hours	3086	554	1268	1264
24 hours	3139	396	1248	1495
Of total				
Boarding-school type	72	22	14	36

Reference date for all information is **July 1<sup>st</sup> 2009**

Country chapter for OECD series *Benefits and Wages* ([www.oecd.org/els/social/workincentives](http://www.oecd.org/els/social/workincentives))

Sanatorium type	27	2	7	18
Groups for children with special health care	4336	157	1566	2613
Groups of compulsory preparation of preschool-aged children (aged 5-6)	29256	-	-	-

(Data source: Ministry of Education and Science)

Children up to 7 years of age acquire pre-school education programme. Depending on the state of health and psychological preparedness of children and according to the parents' wishes and decision of the family doctor, the mastery of the pre-school education programme may be prolonged or shortened by one year.

The preparation of five-year and six-year old children for the acquisition of primary education is compulsory.

### **7.1** *Out-of-pocket childcare fees paid by parents*

The payments that are made by parents for the acquisition of pre-school education are the following:

- 1) In the general mixed-type pre-school establishments parents pay for catering of children but all other expenses (maintenance of buildings, administrative expenses, salaries of the administrative staff and teachers except the salaries of teachers involved in the preparation of 5 and 6 year old children for school) are covered by local government. The salaries of those teachers who prepare the five and six year old children for school are paid from the state budget.

The founder takes the decision on the costs of catering and these costs are different for each local government. Within its administrative territory the local government according to criteria it has accepted may fix the size of discount to parents and does so in practice.

- 2) The parents of the pupils of special education institutions need not make any payments since all expenditures are covered from the state target subsidy and local government budget.
- 3) In private education institutions parents cover all expenses related to stay at school and the mastery of the pre-school education programme.
- 4) Parents whose children attend other education institutions (general schools, interest centres for children and juveniles, etc.) cover the catering costs.

According to the price survey the average payment for one day in childcare institution in 2009 was 0.68 - 1.94 LVL per child (14.28 – 40.79 per month).

### **7.2** *Child-care benefits*

There are two kinds of child-care benefits in Latvia: earnings related **Parent's benefit** for employed (socially insured) persons and flat-rated **Childcare benefit** for unemployed (socially uninsured) persons and persons are raising children between 1 to 2 years of age.

#### **7.2.1** *Conditions for receipt*

**Parent's benefit** in accordance with the Law "On Maternity and Sickness Insurance" is paid to persons who are on child care leave or continued to work during child care period (are not on child care leave) and who are raising children under 1 year of age, if this person has been employed on the day the benefit is granted (is considered to be an employee or self-employed person in accordance with the Law on State Social Insurance). The benefit shall be granted to one of the parents or a person who has taken guardianship of a child. In accordance with amendments to the law on "On maternity and sickness

Reference date for all information is **July 1<sup>st</sup> 2009**

Country chapter for OECD series *Benefits and Wages* ([www.oecd.org/els/social/workincentives](http://www.oecd.org/els/social/workincentives))

insurance” adopted in the Saeima on 16<sup>th</sup> June 2009, from 2 May 2010 parent’s benefit shall be granted to one of the child’s socially insured parents caring for a child younger than one year old, who are on child care leave (does not work during child care period). Nevertheless temporarily parental benefit shall be granted to a parent, who is employed and isn’t on child care leave. This transitional provision applies for children who born during the time period from 1 July 2009 until 2 May 2010. For those parents the parental benefit is half (50 percent) of the regular benefit’s amount.

**Childcare benefit** in accordance with the Law on State Social Benefits shall be granted to one of the parents or a person who has taken guardianship of a child and who cares for a child:

- 1) if this person is not employed on the day the benefit is granted (is not considered to be an employee or self-employed person in accordance with the Law on State Social Insurance) and is raising child under 1 year of age;
- 2) if this person is raising child between 1 to 2 years of age

A benefit shall be granted until a child reaches two years of age.

**Supplement to the childcare benefit or parent’s benefit for twins or more children arisen in one confinement** provided to persons who receive childcare benefit or parent’s benefit for twins or more children arisen in one confinement for each forthcoming child.  
hild.

## 7.2.2 *Calculation of benefit amount*

### 7.2.2.1 *Calculation of gross benefit*

The amount of **parent’s benefit** is 70% of the average gross wages upon which contributions have been paid during 12 months, but not less than LVL 63 (€ 89,64) per month. This 12-month period applies from three months before the month of the child’s birth.

In accordance with amendments adopted in the Saeima on 1<sup>st</sup> December 2009 to the law “On state pensions and state benefits payment during period from the year 2009 till the year 2012” on a temporary basis – until 31 December 2012 parent who is caring for a child born after 2 November 2010 will receive full sum of benefits (maternity, paternity and parent’s benefit) with a precondition that the benefit’s amount per day is lower or equal to 11,51 LVL. If the amount of the benefit per day is higher than 11,51 LVL, the parent will get full sum of that part of the benefit, which does not exceed 11,51 LVL per day and half (50 percent) of the sum of that part of the benefit, which exceeds 11,51 LVL per day.

Average insurance contribution wage and benefit amount is calculated in accordance with the CM regulations No 270 from July 28 1998 Average insurance contribution wage calculation procedure and procedure for granting, calculation and payment of state social insurance benefits.

From the 1<sup>st</sup> January 2010 the average insurance contributions wage for the parent’s benefit shall be calculated as for other social insurance benefit - from the wage subject to insurance contributions of the insured person for the 12 calendar month period, concluding such period two calendar months prior to the month when an insurable event occurred.

In July 2009 the average amount of parent’s benefit was 439,31 LVL (€ 628) per month.

The **childcare benefit** is granted in accordance with the Article 7 of the Law on State Social Benefits and the CM Regulations No. 644 of 8 August 2006 “Regulations regarding the Amount of the allowance for Child Care and supplement for the birth of twins or more children born during one delivery, its review, granting and disbursement procedure”.

Reference date for all information is **July 1<sup>st</sup> 2009**

Country chapter for OECD series *Benefits and Wages* ([www.oecd.org/els/social/workincentives](http://www.oecd.org/els/social/workincentives))

The amount of childcare benefit:

- for persons who are not employed and who are raising children under 1 year of age LVL 50 (€ 71,14) per month;
- for persons who are raising children between 1 to 2 years of age LVL 30 (€ 42,69) per month.

The amount of the **supplement** is:

- to persons who are raising children under 1 year of age: LVL 50 (€ 71,14) per month for each forthcoming child;
- to persons who are raising children between 1 to 2 years of age: LVL 30 (€ 42,69) per month for each forthcoming child.

(in accordance with the Article 7 of the Law On State Social Benefits and the CM Regulations No. 644 of 8 August 2006 “Regulations regarding the Amount of the allowance for Child Care and supplement for the birth of twins or more children born during one delivery, its review, granting and disbursement procedure”).

#### 7.2.2.2 *Income and earnings disregards*

Parent’s benefit is social insurance benefit, earning related.

Childcare benefit is universal state social benefit, flat-rated and not means or income tested.

#### 7.2.3 *Tax treatment of benefit and interaction with other benefits*

Parent’s benefit is taxable, childcare benefit is non-taxable. Parent’s benefit is not granted for child due to his/her birth has been granted the maternity benefit of childcare benefit for the same period. In turn childcare benefit shall not be granted for children if due to his/her birth a maternity benefit or parent’s benefit has been granted during the same period of time.

In accordance with amendments to the law “On maternity and sickness insurance” adopted in the Saeima by the 16<sup>th</sup> June 2009 from the 1<sup>st</sup> January 2010 the payment of parent’s benefit shall be interrupted, if person in the same time period receives the unemployment benefit.

#### 7.2.4 *Treatment of particular groups*

No special rules.

### 8. **Employment-conditional benefits**

None

Reference date for all information is **July 1<sup>st</sup> 2009**

Country chapter for OECD series *Benefits and Wages* ([www.oecd.org/els/social/workincentives](http://www.oecd.org/els/social/workincentives))

## **8.1**      *Conditions for receipt*

## **8.2**      *Calculation of benefit amount*

### **8.2.1**      *Calculation of gross benefit*

## **8.3**      *Tax treatment of benefit and interaction with other benefits*

## **8.4**      *Benefit duration*

## **8.5**      *Treatment of particular group*

### **8.5.1**      *Young persons*

### **8.5.2**      *Older workers*

### **8.5.3**      *Others if applicable*

## **9.**      **Lone-parent benefits**

State social security benefit.

### **9.1**      *Conditions for receipt*

State social security benefit shall be granted to a child that has not reached the lawful age (18 years), has lost one or both breadwinners (parents) and is not married; the benefit shall be paid to parents of a child, guardian or any other person that actually raises a child. The benefit payments shall be carried on if after reaching the lawful age, a person attends general or professional educational establishments and is not older than 20 or studies at day department (full time education) of any higher educational establishment and is not older than 24. State social security benefit also shall be granted to a person:

- who is not employed (is not considered to be an employee or self-employed in accordance with the Law on the State Social Insurance) and has exceeded by five years the age which, in accordance with the Law on State Pensions, has been specified for a person in order for him or her to obtain the right to the old age pension;
- has been recognised as a disabled person and has exceeded the age of 18 years. A State social security benefit shall be granted to these persons for the period of time of the specified disablement.

### **9.2**      *Calculation of benefit amount*

#### **9.2.1**      *Calculation of gross benefit*

The amount of state social security benefit is 45 LVL per month in general case, but for children disabled from childhood – 75 LVL. In cases when the benefit is granted to three or more children, the amount shall not be less than 50% from the amount of state social security benefit that is granted to each child.

##### **9.2.1.1**      *Irregular additional payments*

Reference date for all information is **July 1<sup>st</sup> 2009**

Country chapter for OECD series *Benefits and Wages* ([www.oecd.org/els/social/workincentives](http://www.oecd.org/els/social/workincentives))

#### 9.2.2 *Income and earnings disregards*

No disregards, universal benefit.

#### 9.3 *Tax treatment of benefit and interaction with other benefits*

Not taxable.

#### 9.4 *Benefit duration*

See chapter 9.1.

#### 9.5 *Treatment of particular group*

No special rules.

##### 9.5.1 *Young persons*

##### 9.5.2 *Older workers*

##### 9.5.3 *Others if applicable*

Social State Benefit to Participants of Mitigation of Consequences of Chernobyl NPS or their Family.

##### 9.5.3.1. *Condition for receipt*

Entitlement to benefit:

- participants of the Chernobyl nuclear clean-up (CNC disabled person), starting from the date, when disability has been stated, if disability is due to Chernobyl nuclear clean-up;
- family members of the deceased participant of the Chernobyl nuclear clean-up (CNC participant) from the date of death of the CNC participant, if the cause of death is due to Chernobyl nuclear clean-up;

Family members of the CNC participant are his children who are not older than 18 (until 24) years if they are full time students of the secondary or higher educational establishment) as well as the survived spouse (who are not intermarry with another person), parents and grandchildren if they had been supported by the deceased.

The amount of the Social State Benefit to Participants of Mitigation of Consequences of Chernobyl NPS or their Family is 60 LVL per month (till 1<sup>st</sup> January 2009 – 45 LVL per month). Benefit is granted in accordance with the law On the social protection of the participants of the Chernobyl nuclear clean-up and persons suffered as a result of the Chernobyl nuclear power station accident and the Cabinet of ministers` regulation.

Not taxable.

## 10. **Tax system**

The tax system consists of state taxes, state fees, local government fees, directly applicable taxes and other obligatory payments set in European Union regulatory enactments, social insurance contributions.

Reference date for all information is **July 1<sup>st</sup> 2009**

Country chapter for OECD series *Benefits and Wages* ([www.oecd.org/els/social/workincentives](http://www.oecd.org/els/social/workincentives))

Social insurance contributions guarantees security to person in case of old-age, death, unemployment, disability, maternity, sickness, accidents at work and occupational diseases. The basis of compulsory social insurance contributions for the employee is all income from paid work from which personal income tax is to be deducted, without deduction of the non-taxable minimum, tax exemptions and justified expenses for which the taxpayer is entitled to reduce the taxable income.

Salary, pension, income from economic activity (self-employment) are subject to Personal Income Tax.

## **10.1 Income tax**

In 2009 personal Income Tax rate is 23% (from 1 January 2010 – 26%) taxation period – calendar year. The tax shall be calculated and paid into the budget in two ways:

- 1) in advance – payer of the income withholds tax at the source of income and pays it into the budget (from salary, pension, authors fee (royalty), donations in cash and other objects, scholarships, etc.)
- 2) and in accordance with the summary procedures, by submitting an annual income declaration (from income of economic activity and declared deductible expenses).

### *10.1.1 Tax allowances and credits*

#### *10.1.1.1 Standard allowances*

1) Amount of basic allowance: from 1 January 2009 - 90 LVL per month, from 1 July 2009 – 35 LVL per month; in 2010 - 35 LVL per month (420 LVL per annum).

2) Non-taxable minimum for pensions:

- for persons to whom a pension was granted (including additional payment to pension for length of insurance, which was accumulated up to 31 December 1995) in conformity with the law “On State Pensions” or long service pension, or special state pension in conformity with Latvia’s laws and regulations, or pension with conformity with foreign states laws and regulations, a taxable minimum is 1980 LVL per annum;
- for persons to whom a pension was granted up to 1 January 1996 in conformity with the law “On State Pension” and pensions (along with additional payment to pension for length of insurance, which was accumulated up to 31 December 1995) total exceeding 1980 LVL per annum.

3) Tax relief’s:

- relief on dependants (for each dependant) – in 2009 and 2010 – 756 LVL per annum (63 LVL per month);
- relief for disable persons:
  - I and II invalidity group – in 2009 and 2010 - 1296 LVL per annum (108 LVL per month);
  - III invalidity group – in 2009 and 2010 - 1008 LVL per annum (84 LVL per month);
- Additional relief for politically repressed persons – in 2009 and 2010 - 1296 LVL per annum (108 LVL per month).

The taxpayer can apply relief on following dependants:

- for a minor child and for a child while he or she continues the acquisition of a general, professional, higher or special education, but not longer than until reaching 24 years of age;
- for an unemployed spouse;
- for unemployed parents and grandparents;

Reference date for all information is **July 1<sup>st</sup> 2009**

Country chapter for OECD series *Benefits and Wages* ([www.oecd.org/els/social/workincentives](http://www.oecd.org/els/social/workincentives))

- for a grandchild or a child taken for raising while he or she continues the acquisition of a general, professional, higher or special education, but not longer than until reaching 24 years of age, if it is impossible to recover the allowance (alimony) from the parents of the child;
- for a brother, sister who is under the age of 18 years, if they do not have parents who are able to work;
- for the dependants of the dependent persons;
- for a person under guardianship or trusteeship of the payers.

#### 4) Deductible expenses:

- Social security contributions paid by individual;
- Contributions into private pension funds or life insurance (accrual) premiums not exceeding 20% of taxpayer gross income (from 2010 – 10%);
- Health care and education expenses (not exceeding 300 lats per year, from 2010 – 150 lats);
- Planned operations and dentistry expenses;
- Charitable donations (not exceeding 20% of taxable income).

##### 10.1.1.2 *Standard tax credits*

##### 10.1.2 *Income tax schedule (central government income tax)*

##### 10.1.3 *State and local income taxes*

#### 10.2 *Treatment of family income*

Latvia has not household taxation or joint taxation for spouse; taxpayer pays personal income tax individually.

#### 10.3 *Social security contributions and payroll taxes*

##### 10.3.1 *Contributions payable by employees and benefit recipients*

In 2009 the rate of compulsory social insurance contribution if the employee is insured for all social insurance kinds is 33,09% of wage before taxation, where the employer pays 24,09% and the employee – 9%. Social insurance contribution covers:

- state pensions insurance – 22,86%
- unemployment insurance – 1,70%
- occupational accident insurance – 0,26%
- disability insurance – 2,95%
- maternity and sickness insurance – 3,47%
- parental insurance – 1,85%.

Individuals are insured and social insurance contribution payments are made in respect of those risks that may actually affect them. Therefore, the rate of social insurance contribution for special categories of payers has been reduced, excluding certain types of insurance. For the period of **1 January 2009 till 31 December 2013** the maximum object of social payments **is not set** (that is, during that period of time persons have to make the social insurance payments from all their income of job), but minimum amount for the self employed persons and for persons who joined social insurance voluntary – 2 160 LVL per year.

The personal income tax (23%, from 2010 – 26%) is calculated from the gross wage from which the employee's contribution part has been deducted. The non-taxable minimum, tax concessions and eligible expenses for which the taxpayer has the right to reduce the taxable income are applicable.

### 10.3.2 *Contributions payable by employers*

An employee shall make social insurance contributions through his or her employer. The employer shall deduct the contributions to be made by the employee and pay them into a special budget account.

Employer calculates social insurance contributions of the employee by multiplying the work income by the rate of social insurance contributions of the employee. Employer's social insurance contributions employer calculates by multiplying the work income by the rate of social insurance contributions of the employer. Total calculated social insurance contributions acquired by summing up the social insurance contributions of the employee and the social insurance contributions of the employer.

For example, if an employee's gross wage is 200 LVL, the employer makes the following calculation: he multiplies the contribution base by the contribution rate set for the employer (LVL 200 x 24.09% = LVL 48.18). He also calculates the part of contributions to be made by the employee by multiplying the contribution base by the contribution rate set for the employee (LVL 200 x 9% = LVL 18). Total sum of contributions payable I calculated by adding together the employers and employee's part (LVL 48.18 + LVL 18 = LVL 66.18 per month).

### 10.3.3 *Payroll taxes*

In accordance with the law *On Protection of Employees in Case of Employer's Insolvency* employers who according to law can be announced as bankrupt shall pay entrepreneurship risk state duty into the Employees Guarantee Fund to satisfy employees claims in the event of the insolvency of enterprise. From the Employee Claims Guarantee Fund the following claims may be covered:

- 1) wage for the last three months of the employment relationship during 12 months before entering insolvency;
- 2) compensation for annual paid leave (holiday payment) which an employee became entitled to receive within 12 month period before entering insolvency;
- 3) compensation for other types of paid absence within the last three months of the employment relationship during the 12 months before entering insolvency;
- 4) redundancy payment in minimum statutory amount stated by the law;
- 5) compensation of damage for the whole unpaid period;
- 6) amount of compensation for damage to be paid for three subsequent years ahead

In 2009 the monthly value of duty is 0.25 LVL per payroll employee (self-employed persons are not covered).

## 10.4 *Treatment of particular group*

### 10.4.1 *Young persons*

None

### 10.4.2 *Older workers*

Employees who have reached the retirement age make social insurance contribution payments for pensions insurance, occupational accident insurance, maternity and sickness insurance, parental insurance and the insurance contribution rate is 28,30% in 2009.

Reference date for all information is **July 1<sup>st</sup> 2009**

Country chapter for OECD series *Benefits and Wages* ([www.oecd.org/els/social/workincentives](http://www.oecd.org/els/social/workincentives))

#### 10.4.3 *Others if applicable*

For example, for self-employed persons the insurance contribution rate is 30,48% in 2009 and they make social insurance contribution payments for pensions insurance, disability insurance, maternity and sickness insurance, parental insurance.

### **11. Part-time work**

Labour Law determines, that employer and employee may agree in an employment contract on part-time work that is shorter than the regular daily or weekly working time.

An employer shall determine part-time work if requested by a pregnant woman, a woman for a period following childbirth up to one year, but if the woman is breastfeeding then for the whole period of breastfeeding, as well as by an employee who has a child less than 14 years of age or a disabled child under 18 years of age.

The same provisions, which apply to an employee who is employed for regular working time, shall apply to an employee who is employed part-time.

Refusal by an employee to change over from regular working time to part-time or vice versa may not of itself serve as a basis for a notice of termination of an employment contract or restriction of the rights of an employee in any other way. This provision shall not restrict the right of an employer to give a notice of termination of an employment contract if such notice is adequately substantiated with the performance of urgent economic, organisational, technological or similar measures in the undertaking.

An employer shall, at the request of an employee, transfer the employee from regular working time to part-time or vice versa if such possibility exists in the undertaking.

An employer shall inform employee representatives regarding the possibility of employing employees part-time in the undertaking if the employee representatives request such information.

#### **11.1 *Special benefit rules for part-time work***

There are no special benefit rules for part-time workers.

#### **11.2 *Special tax and social security contribution rules for part-time work***

None

### **12. Policy developments**

#### **12.1 *Policy changes introduced during 2009 (since July 1<sup>st</sup> 2008 till July 1<sup>st</sup> 2009)***

In order to prevent malignant using of unemployment benefits and facilitate employment in the state some substantial changes were enacted within the area of unemployment insurance.

The Parliament of Latvian Republic (Saeima) in 11 December 2008 adopted “Amendments to the Law “On Unemployment Insurance””, which are became effective on 23 December 2008 and provides the suspension of unemployment benefit payment in the case when unemployed person receive sickness benefit.

Reference date for all information is **July 1<sup>st</sup> 2009**

Country chapter for OECD series *Benefits and Wages* ([www.oecd.org/els/social/workincentives](http://www.oecd.org/els/social/workincentives))

The period of qualification for the unemployment benefit (period within the contributions for the case of unemployment shall be made) has been decreased from 12 to 9 months from the 1<sup>st</sup> July 2009 in order to facilitate the qualifying for the unemployment benefit and extend the coverage of population by the unemployment insurance scheme, what is necessary measure in the obstacles of rapid growth of unemployment rate in Latvia.

From the 1<sup>st</sup> July 2009 the length of unemployment benefit disbursement has been increased on a temporary basis and for the period from the 1<sup>st</sup> July 2009 till 31<sup>st</sup> December 2011 the total length of unemployment benefit payment for all groups of unemployed is 9 months. The unemployment benefit within above mentioned period of time shall be paid in such amounts:

- 1) for persons with the insurance record from 1 – 9 years:
  - first 2 months of unemployment: 100% of set benefit,
  - from 3-4 months of unemployment: 75% of the set benefit;
  - from 5- 9 months of unemployment constant sum - 45 LVL per month.
- 2) for persons with the insurance record from 10 – 19 years:
  - first 2 months of unemployment: 100% of set benefit,
  - from 3-4 months of unemployment: 75% of the set benefit,
  - from 5-6 months of unemployment: 50% of the set benefit;
  - from 7- 9 months of unemployment constant sum - 45 LVL per month.
- 3) for persons with the insurance record over 20 years:
  - first 3 months of unemployment: 100% of set benefit,
  - from 4-6 months of unemployment: 75% of the set benefit,
  - from 7-9 months of unemployment: 50% of the set benefit.

In the field of state social benefits some substantial changes were enacted, regarding the increase of some state social benefits' amounts.

The Cabinet of Ministers on 22 December, 2008 adopted amendments to the regulations regarding the amount of the Social State Benefit to Participants of Mitigation of Consequences of Chernobyl NPS or their Family, which has become effective in 1 January 2009 and provides the increase of this amount from 45 LVL to 60 LVL per month.

The Cabinet of Ministers on 7 October, 2008 adopted “Amendments to the Regulations regarding the Amount of State Family Benefit and Supplement to State Family Benefit for Disabled Child, the Procedures for Review Thereof and the Procedures for Granting and Disbursement of Benefit and Supplement”, which has become effective in 1 January 2009 and provides the increase of amount of supplement for disabled child from 50 LVL to 75 LVL per month.

The Cabinet of Ministers on 16 September 2008 adopted “Amendments to the Regulations regarding the Amount of the State Social Security Benefit and Funeral Benefit, the Procedures for the Review thereof and the Procedures for the Granting and Disbursement of the Benefits”, which has become effective in 1 January 2009 and provides the increase of amount of benefit for persons disabled since childhood from 50 LVL to 75 LVL per month.

Social insurance benefits and state social benefit aimed at supporting families with children have been seriously affected by the budget cuts of July 2009.

In accordance with amendments adopted by the Saeima in 16 June 2009 to the law “On state social benefits”, from the 1<sup>st</sup> July 2009 the family state benefit shall be paid for each child till the age of 19 years, if child continue to study (payment period reduced on one year). Also from the 1<sup>st</sup> July 2009 on a temporary basis (in accordance with the law “On state pensions and state benefits payment during period

Reference date for all information is **July 1<sup>st</sup> 2009**

Country chapter for OECD series *Benefits and Wages* ([www.oecd.org/els/social/workincentives](http://www.oecd.org/els/social/workincentives))

from the year 2009 till the year 2012” adopted in Saeima on the 16<sup>th</sup> June 2009) the family state benefit was reduced to the amount of the flat sum of 8 LVL per month per each children, without regarding the differentiation of benefit’s amount in dependence from the number of children in a family. (Until July 2009 the benefit ranged from 8 LVL per month for the first child in family to 14,40 LVL for fourth and further children).

From the 1<sup>st</sup> July 2009 for children who born during the time period from 1 July 2009 until 2 May 2010 the amount of parental benefit, if parent continue to work during child care period, is reduced by half (50 percent) of the regular benefit’s amount.

From 01.07.2009 local municipalities are eligible to determine supplement to GMI benefit for families with children.

From 01.10.2009 GMI level is increased and set different for adults ( 40,-LVL per month) and children under 18 ( 45,-LVLper month) and municipalities are eligible set .

The local municipalities are eligible to determine the level of GMI for persons, receiving old-age pension or disability pension , but not below 40,- LVL and not above 90,-LVL per month.

There is no limit for maximum amount of GMI benefit for household since 01.10.2009.

From 01.12.2009, related to the economic crisis, the set of state social benefits which are not consider as income when measuring resources of client for granting municipal social assistance benefits is reduced.

From 01.12.2009 municipalities have an obligation of granting other benefits on the basis of means-test and for aims related to people’s basic needs.

## **12.2 Future policy changes announced in 2009 (after July 1<sup>st</sup> 2009)**

In order to ensure better coherence between the amount of unemployment benefit and previous income of socially insured person, on the 16 June 2009 the Saeima adopted amendments to the law “On insurance against unemployment” which provide the increase of calculating period of average insurance contributions wage from six months period to 12 months period such period ending two calendar months prior to the month in which the person became unemployed on 1<sup>st</sup> January 2010.

In accordance with amendments adopted in the Saeima on 1<sup>st</sup> December 2009 to the law “On state pensions and state benefits payment during period from the year 2009 till the year 2012” on a temporary basis – from the 1<sup>st</sup> January 2010 till the 31<sup>st</sup> December 2012 unemployed person will receive full sum of unemployment benefit with a precondition that the benefit’s amount per day is lower or equal to 11,51 LVL. If the amount of the benefit per day is higher than 11,51 LVL, the person will get full sum of that part of the benefit, which does not exceed 11,51 LVL per day and half (50 percent) of the sum of that part of the benefit, which exceeds 11,51 LVL per day.

In accordance with amendments adopted by the Saeima in 16 June 2009 to the law “On state social benefits”, for children who will born after 3 May 2010 the family state benefit shall be provided only to children, which reached one year (not from the day of birth as currently).

Before April 2010, parents will receive a one-off childbirth allowance (birth grant) of 296 LVL with additional payments at the amount of 100 LVL for the first child birth, 150 LVL for the second child birth and 200LVL for the third child and the next children birth. From 1<sup>st</sup> July 2009, additional payments for the birth grant were abolished and for all children born after April 2010 birth grants shall be paid at the amount of 296 LVL (without additional payment).

Reference date for all information is **July 1<sup>st</sup> 2009**

Country chapter for OECD series *Benefits and Wages* ([www.oecd.org/els/social/workincentives](http://www.oecd.org/els/social/workincentives))

In accordance with amendments to the law on “On maternity and sickness insurance” adopted in the Saeima on 16<sup>th</sup> June 2009, from 2 May 2010 parent’s benefit shall be granted to one of the child’s socially insured parents caring for a child younger than one year old, who are on child care leave (does not work during child care period). Nevertheless temporarily parental benefit shall be granted to a parent, who is employed and isn’t on child care leave. This transitional provision applies for children who born during the time period from 1 July 2009 until 2 May 2010. For those parents the parental benefit is half (50 percent) of the regular benefit’s amount.

In accordance with amendments adopted in the Saeima on 1<sup>st</sup> December 2009 to the law “On state pensions and state benefits payment during period from the year 2009 till the year 2012” on a temporary basis – until 31 December 2012 parent who is caring for a child born after 2 November 2010 will receive full sum of benefits (maternity, paternity and parent’s benefit) with a precondition that the benefit’s amount per day is lower or equal to 11,51 LVL. If the amount of the benefit per day is higher than 11,51 LVL, the parent will get full sum of that part of the benefit, which does not exceed 11,51 LVL per day and half (50 percent) of the sum of that part of the benefit, which exceeds 11,51 LVL per day.

From the 1<sup>st</sup> January 2010 the average insurance contributions wage for the parent’s benefit shall be calculated as for other social insurance benefit - from the wage subject to insurance contributions of the insured person for the 12 calendar month period, concluding such period two calendar months prior to the month when an insurable event occurred.

In accordance with amendments to the law “On maternity and sickness insurance” adopted in the Saeima by the 16<sup>th</sup> June 2009 from the 1<sup>st</sup> January 2010 the payment of parent’s benefit shall be interrupted, if person in the same time period receives the unemployment benefit.

Reference date for all information is **July 1<sup>st</sup> 2009**

Country chapter for OECD series *Benefits and Wages* ([www.oecd.org/els/social/workincentives](http://www.oecd.org/els/social/workincentives))

Annex

Definition of social security contributions and payroll taxes.

The following text has been adapted from Annex A of the OECD *Revenue Statistics*.

### **Social security contributions to general government**

Classified here are all compulsory payments that confer an entitlement to receive a (contingent) future social benefit. Such payments are usually earmarked to finance social benefits and are often paid to institutions of general government that provide such benefits. However, such earmarking is not part of the definition of social security contributions and is not required for a tax to be classified here. However, conferment of an entitlement is required for a tax to be classified under this heading. So, levies on income or payroll that are earmarked for social security funds but do not confer an entitlement to benefit are excluded from this heading and shown under personal income taxes or taxes on payroll and workforce. Taxes on other bases, such as goods and services, which are earmarked for social security benefits are not shown here [...] because they generally confer no entitlement to social security benefits.

Contributions for the following types of social security benefits would, *inter alia*, be included: unemployment insurance benefits and supplements, accident, injury and sickness benefits, old-age, disability and survivors' pensions, family allowances, reimbursements for medical and hospital expenses or provision of hospital or medical services. Contributions may be levied on both employees and employers.

### **Social security contributions paid to institutions outside general government**

Contributions to social insurance schemes which are not institutions of general government and to other types of insurance schemes, provident funds, pension funds, friendly societies or other saving schemes [are included here if they are compulsory or quasicompulsory (e.g., by virtue of agreement with professional and union organisations)]. Provident funds are arrangements under which the contributions of each employee and of the corresponding employer on his/her behalf are kept in a separate account earning interest and withdrawable under specific circumstances. Pension funds are separately organised schemes negotiated between employees and employers and carry provisions for different contributions and benefits, sometimes more directly tied to salary levels and length of service than under social security schemes.

### **Payroll taxes**

This heading covers taxes paid by employers or employees either as a proportion of payroll or as a fixed amount per person, and which do not confer entitlement to social benefits. Examples of taxes classified here are the United Kingdom national insurance surcharge (introduced in 1977), the Swedish payroll tax (1969-1979), and the Austrian Contribution to the Family Burden Equalisation Fund and Community Tax.