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## LATVIA 2006

### 1. Overview of the tax-benefit system

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 social assistance.

The unemployment benefit is state social insurance benefit, which guarantees a person a certain substitute for income in the event of unemployment and is provided only for socially insured people. 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. 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.).

The tax system in Latvia consists of state taxes, state fees, local government fees, and social insurance contributions. Individuals are insured and social insurance contribution payments are made in respect of those risks that may actually affect them. Social insurance contributions guarantee security to person in case of old-age, death, unemployment, disability, maternity, sickness, accidents at work and occupational diseases.

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 2006 AW earnings level is LVL **3627.86**<sup>1</sup>.

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<sup>1</sup> AW refers to the Average Wage estimated by national experts in accordance with the Centre for Tax Policy and Administration guidelines. For more information on methodology see Taxing Wages 2005-2006, OECD, 2007, part 5, sections 2 and 3.

## 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.

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*.

#### 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:

1) is a citizen or non-citizen of Latvia or he or she has received a permanent residence permit, or has received a temporary residence permit and is a spouse of a citizen or non-citizen of Latvia, or a spouse of a person who has received a permanent residence permit;

2) does not work (is not considered to be an employee or a self-employed person) in accordance with the *Law On State Social Insurance*);

3) is seeking employment;

4) is able to work and ready to enter into labour relations immediately;

5) has reached 15 years of age;

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- 6) has not reached the age necessary for the granting of the State old age pension or does not receive a service pension or the State special pension;
  - 7) is not acquiring an education by being present at a general secondary or vocational secondary education institution, excluding evening school;
  - 8) does not perform commercial activities or his or her commercial activities have been suspended in accordance with regulatory enactments; and
  - 9) 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.

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 Latvia;
- 9) conscription into the State mandatory military service;
- 10) the loss of work ability of 100 per cent;
- 11) renewal of employment through a court judgment; or
- 12) death of the unemployed person.

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 behalf within a period of not less than 9 months within the last preceding 12 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

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on the basis of the contributions made during the preceding 12 months before obtaining of the status of unemployed.

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 amount of social insurance contributions covered unemployment insurance is 1,86% 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.

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 the unemployed person, for whom unemployment contributions were made both by himself and his employer but for whom the state also made contributions for some period, then the amount of the benefit is determined:

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- 1) for the 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 behalf within a period of not less than 9 months within the last preceding 12 months before obtaining of the status of unemployed – in proportion to the insurance period and depending from the average insurance contributions wage;
- 2) 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 – in 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.

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 simultaneously by the claimant of benefit himself, and his employee, and the state, then the unemployment benefit is granted 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 unemployment benefit amount also depends on the length of unemployment:

- for the first 3 months – the benefit is paid in its full amount;
- for the succeeding 3 months – at the rate 75% of the unemployment benefit granted initially;
- for the last three months – at the rate of 50% of the unemployment benefit granted initially.

Benefit amount is reduced every third month 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.

In the period from 1 of January to 1 of July of 2006 the average unemployment benefit amount was 73.21 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, 2006)
insurance record from 1 to 9 years	50%	76.17
insurance record from 10 to 19 years	55%	81.59
insurance record from 20 to 29 years	60%	82.94
Insurance record above 30 years	65%	100.71

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2.2.2 *Income and earnings disregards*

No disregards.

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

Non-taxable.

2.4 *Benefit duration*

The unemployment benefit is granted for the total period of 9 months as maximum within a period of 12 months as of the day of granting of the benefit.

If within a period of 12 months the unemployment benefits are granted repeatedly, then they shall be granted considering the previous period of receiving the benefit granted in the same period. If in this period of 12 months the payments in the case of unemployment are made on behalf of the particular person for not less than 9 months, then unemployment benefits shall be granted under the general provisions.

2.5 *Treatment of particular groups*

None.

**3. Unemployment assistance**

None

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#### **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 3 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. Benefit in an emergency situation;
3. Other benefits, which are determined from municipalities' initiative.

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

##### *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. 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.

##### *4.1.3. Other benefits*

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

#### **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 (24 LVL in 2006) and households or separately living person's income per capita. 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

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Maximum amount GMI benefit per month:

separately living person	Household
24 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.

An increased GMI level of LVL 45 set by Riga City Council is given to the following population groups:

- 1) children and young people aged under 20 years and studying at a secondary or vocational school up to the end of the year;
- 2) disability and old-age pensioners;
- 3) one of parents or guardians in families with children;
- 4) orphans and children aged under 25 years left without parental care who are supporting themselves;
- 5) persons incapable to work for a prolonged period of time (more than an month), persons able to work 3 years before reaching retirement age and one year after recovery of ability to work in relation to end of the disability period.

#### 4.2.1.2. Benefit in an emergency situation

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

#### 4.2.1.3. Other benefits

Established by local municipality's regulation.

#### 4.2.2 *Income and earnings disregards*

No disregards.

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

Non-taxable.

#### 4.4 *Benefit duration*

##### 4.4.1. *GMI benefit*

GMI benefit is granted for the period of 3 months and is renewable after that. Maximum duration for GMI benefit is 9 months per year.

4.4.2. *Benefit in an emergency situation*

Lump- sum

4.4.3. *Other benefits*

Established by local municipality's regulation.

**4.5 Treatment of particular group**

4.5.1 *Young persons*

None

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)

4.5.3.2. In case during GMI benefit receiving period income increase due to one of **family members starts to work** – GMI benefit is paid for additional 3 months in decreased amount. In this case duration of GMI benefit can exceed 9 months per year. According to legislation there are two cases when decreased amount of GMI benefit can be paid for additional 3 months:

- if income of family increase above the stated level of GMI, decreased amount of benefit is calculated as followed:
  - 1st month – 75% of awarded benefit
  - 2nd month – 50%
  - 3rd month – 25%
- if income of family increase but not achieve the stated level of GMI, the amount of benefit can be calculated as followed:  
according to standard formula taking into account new level of income according to rules described above.

Local authorities apply the method giving the highest amount of calculated benefit.

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## 5. Housing benefits

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. 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.

Housing benefit is one but there are different kinds of payment (payments to public utility services, fire wood charges etc.). 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)

Housing benefit is calculated and paid each month.

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

To calculate the housing benefit the results of Household Budget Survey (see table below) as the limits of actual housing costs were used.

### Composition of consumption expenditures by number of persons, 2005\*

(average per household member per month, LVL)

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	<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	150.51	144.42	136.01	122.60	90.09
Housing, water, electricity, gas and other fuels (excluded communications)	28.64	19.60	14.67	12.54	7.41

(Data source: Central Statistical Bureau)

\* The results of 2006 were not available at the moment of the preparation of this document.

For instance, for a single person under Social Assistance (SA), the limit of actual housing costs are LVL 343.68 (28.64 \*12) and that are smaller than assumed housing costs – 20% of the AW (LVL 594.75). The costs above 343.68 are ignored when the housing benefit is calculated. In case of four persons family the limit of actual costs LVL 601.92 (12.54\*4\*12) is higher than assumed, wherewith housing costs of 20% of the AW are used for calculation.

### Composition of consumption expenditures by number of persons, 2006

	<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	184.04	175.12	163.68	142.63	109.69
Housing, water, electricity, gas and other fuels (excluded communications)	33.86	23.51	18.79	13.89	10.72

#### 5.2.2 *Income and earnings disregards*

It is possible to receive the housing benefit together with other social assistance benefits. The income excludes the first 50 lats of the childbirth allowance, which according to the Law on State Social Benefits is granted to a person taking care of child under age 1.

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;
- 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.

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

Benefits are not liable to a tax.

**5.4 Treatment of particular groups**

The increased GMI level of LVL 45 set by Riga City Council has an influence on the amount of housing benefit for the following population groups:

- 6) children and young people aged under 20 years and studying at a secondary or vocational school up to the end of the year;
- 7) disability and old-age pensioners;
- 8) one of parents or guardians in families with children;
- 9) orphans and children aged under 25 years left without parental care who are supporting themselves;
- 10) persons incapable to work for a prolonged period of time (more than an month), persons able to work 3 years before reaching retirement age and one year after recovery of ability to work in relation to end of the disability period.

In estimates of the housing benefit for other population groups, the GMI level of the LVL 24 set by the Cabinet of Ministers is applied.

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**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 20 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.

**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 6 LVL per month. For the second child benefit shall be 1,2 times bigger (7,2 LVL per month), for the third child – 1,6 times bigger (9,6 LVL per month), but for the fourth and the following children – 1,8 times bigger than for the first child in a family (10,8 LVL per month).

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 50 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.
- *Care of disabled child benefit,* which is granted to a person who cares for a child for whom the State Medical Commission for Expert-Examination 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, if the referred to person is not employed (is not deemed to be an employee or self-employed person in accordance with the Law On State Social Insurance). A care of disabled child benefit shall not be granted if in the same time period the parents of the child in relation to the birth or care of such child have been granted maternity benefits or childcare benefits. 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 50 LVL per month.

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**6.2.2**        *Income and earnings disregards*

No disregards.

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

Non-taxable.

**6.4**        *Treatment of particular groups*

No special rules.

## 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 20 September 2006 575 pre-school establishments are carrying out their pre-school programmes (537 general and 38 special pre-school establishments as well as 446 general schools, special schools, interest centres for children and juveniles and other education institutions). There are in total 1021 education institutions implementing pre-school education programmes. 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 1st September, 2006; general schools, special schools, interest centres are not included)										
	TOTAL	2006	2005	2004	2003	2002	2001	2000	1999	1998 and earlier
Number of children	65753	2	1365	8235	13145	13636	14322	13954	1078	16
of which										
disabled	527	0	1	31	69	101	139	129	49	8
the staying of which is partially paid by the Social Service of municipality	1574	-	-	-	-	-	-	-	-	-
Included in the waiting list	21212	-	-	-	-	-	-	-	-	-

(Data source: Central Statistical Bureau)

Number of children in the pre-school childcare institutions by year of birth and type of group (on the 1st September, 2006; general schools, special schools, interest centres are not included)				
	TOTAL	of which born in		
		2004 and later	2002 and 2003	2001 and earlier
Number of children	65753	9602	26781	29370
of which groups with length of staying per day				
< 7 hours	640	39	70	531
7 - 12,5 hours	59219	8890	24258	26071
12,6 - 14 hours	2259	347	939	973
24 hours	3635	326	1514	1795
Of total				
Boarding-school type	39	0	17	22
Sanatorium type	149	3	70	76
Groups for children with special health care	4614	157	1593	2864
Groups of compulsory preparation of preschool-aged children (aged 5-6)	29200	-	-	-

(Data source: Central Statistical Bureau)

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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 2006 was 0.45 – 1.27 LVL per child (9.45 – 26.60 LVL per month).

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

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

Double-level (flat-rate and earnings-related) *child care benefit* provided to those parents or care-giver (guardian) who are not employed or are not full-time employed and who are raising children under 2 years of age.

#### Flat rate benefit provided:

- to persons who are not employed (not socially insured) and who are raising children under 1 year of age;
- to persons who are raising children between 1 to 2 years of age;

#### Earnings-related benefit provided:

- to persons who are employed (are socially insured) and are raising children under 1 year of age.

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Supplement to the child care benefit for twins or more children arisen in one confinement provided to persons, who receive childcare benefit for twins or more children arisen in one confinement, for each forthcoming child.

## 7.2.2 *Calculation of benefit amount*

### 7.2.2.1 Calculation of gross benefit

The amount of childcare benefit:

- for persons who are employed, are on child-care leave and who are raising children under 1 year of age is 70% of the average gross wages upon which contributions have been paid during 12 months, but not less than LVL 56 per month and not more than LVL 392 per month. This 12-month period applies from three months before the month in which child is born;
- for persons who are employed, but are not on child-care leave (continue to work), and who are raising children under 1 year of age is 50% from the calculated amount of child care benefit (50% from 70% of the average gross wages upon which contributions have been paid during 12 months, but not less than LVL 56 per month);
- for persons who are employed and who are raising children under 1 year of age LVL 50 per month;
- for persons who are raising children under 1 to 2 years of age LVL 30 per month.

The amount of supplement to the childcare benefit for twins or more children arisen in one confinement:

- for persons who are raising children under 1 year of age is LVL 50 per month for each forthcoming child;
- for persons are raising children between 1 to 2 years of age LVL 30 per month for each forthcoming child.

The amount of childcare benefit provided to persons who are employed and are raising children under 1 year of age is calculated from insured person's average gross wage upon which contributions have been paid during 12 months. This 12-months period applies from three months before the month in which child is born. In July 2006 the average amount of child care benefit provided to persons who are employed, are on child-care leave and who are raising children under 1 year of age, was 154.59 LVL per month.

### 7.2.2.2 Income and earnings disregards

Universal, not means-tested.

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

Childcare benefit is non-taxable. Person has not rights receive childcare benefit while he/she receives maternity benefit paid from the state social insurance system.

### 7.2.4 *Treatment of particular groups*

No special rules.

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**8. Employment-conditional benefits**

None

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## **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.

### **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 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.

#### **9.2.2 *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.

## 10. Tax system

The tax system consists of state taxes, state fees, local government fees, social insurance contributions.

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

Personal Income Tax rate – 25%, 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 in 2006 – 384 LVL per annum (32 LVL per month), in 2007 – 600 LVL per annum (50 LVL per month).

2) Non-taxable minimum for pensions:

- for persons to whom a pension has been granted up to 1 January 1996 in conformity with the law “On State Pensions”, the non-taxable minimum is in the amount of this pension;
- for persons to whom a pension has been granted or calculated after 1 January 1996 in conformity with the law “On State Pensions”, the non-taxable minimum from 1 January 2006 – 1320 LVL per annum (110 LVL per month), from 1 October 2006 – 1980 LVL per annum (165 LVL per month).

3) Tax relief’s:

- relief on dependants (for each dependant) – in 2006 – 264 LVL per annum (22 LVL per month), in 2007 – 420 LVL per annum (35 LVL per month);
- relief for disable persons:
  - I and II invalidity group – from 1 January 2006 is 456 LVL per annum (38 LVL per month), from 1 October 2006 – 564 LVL per annum (47 LVL per month);
  - III invalidity group – from 1 January 2006 is 360 LVL per annum (30 LVL per month), from 1 October 2006 – 564 LVL per annum (47 LVL per month);
- relief for politically repressed persons:
  - if a person receives pension – from 1 January 2006 is 456 LVL per annum (38 LVL per month), from 1 October 2006 – 720 LVL per annum (60 LVL per month);

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- if a person doesn't receive pension – from 1 January 2006 is 840 LVL per annum (70 LVL per month), from 1 October 2006 – 1320 LVL per annum (110 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 a grandchild or a child taken for raising, 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 10% of taxpayer gross income;
- Health care and education expenses (not exceeding 150 lats per year);
- 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*

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 paid by employees*

In 2006 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 – 24,79%

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- unemployment insurance – 1,86%
- occupational accident insurance – 0,25%
- disability insurance – 3,03%
- maternity and sickness insurance – 3,16%.

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. In 2006 maximum amount of social insurance contribution object is 20700 LVL per year, but minimum amount for the self employed – 1320 LVL per year.

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).

The personal income tax (25%) 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 paid 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.

### *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;

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- 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 2006 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 and the insurance contribution rate is 27,38% in 2006.

##### *10.4.3 Others if applicable*

For example, for self-employed persons the insurance contribution rate is 30,2% in 2006 and they make social insurance contribution payments for pensions insurance, disability insurance, maternity and sickness insurance.

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

There are no special rules for part-time workers.

### ***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

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**12. Policy developments**

**12.1 Policy changes introduced during 2006**

In 2006 some important changes in the procedure for the granting of the Child Care Allowance have been proposed and introduced. On 1 March 2006 in accordance with the judgement adopted in 4 November 2005 by the Constitutional Court of Latvian Republic, the norm defined in the Law on State Social Benefits, which forbidden for the employed person who are raising children under 1 year of age to work during child care period, was repealed. On 7 March 2006 the new procedure for the granting of the Child Care Allowance came into force. In accordance with this procedure defined in the Amendment to the Law on State Social Benefits (adopted in Saeima (parliament) in 2 March 2006) the amount of the Child Care Allowance for persons who are employed, but are not on child-care leave (continue to work), and who are raising children under 1 year of age, was defined as 50% from the calculated amount of child care benefit (50% from 70% of the average gross wage upon which contributions have been paid during 12 months, but not less than LVL 56 per month). But then the Constitutional Court of Latvian Republic in the judgement adopted in 2 November 2006 has adjudged the before mentioned procedure for the granting of the Child Care Allowance for persons who are employed, but are not on child-care leave (continue to work), and who are raising children under 1 year age, as not corresponding to the Article 110 of the Constitution (Satversme) of Latvian Republic, on the basis that this norm restricts person's rights to employment, and repealed it on March 2007.

In order to increase state support in the form of cash payments for disabled children on 1 January 2006 the new state social benefit – Care of Disabled Child Benefit – was introduced. A care of disabled child benefit shall be granted to a person who cares for a child for whom the State Medical Commission for Expert-Examination 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, if the referred to person is not employed (is not deemed to be an employee or self-employed person in accordance with the Law On State Social Insurance). A care of disabled child benefit shall not be granted if in the same time period the parents of the child in relation to the birth or care of such child have been granted maternity benefits or childcare benefits. The right to receive care of disabled child benefits is created from the day that the disabled child has been issued the State Medical Commission for Expert-Examination of Health and Expert-Examination of Health and Working Ability's opinion regarding the necessity for special care. The payment of care of disabled child benefits shall be terminated when the time period ends for which 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 50 LVL per month. The average number of recipients of this benefit in 2006 was 573 per month.

In order to facilitate the demographic situation in Latvia (raising the level of birth rate) on 1 January 2006 the accordant supplement to the childbirth benefit will be introduced. The amount of supplement is; 100 LVL for the first child, 150 LVL – for the child, 200 LVL for the third child in a family.

**12.2 Future policy changes announced in 2006**

As concerns tax system see Section 10.

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## 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, 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.