

THE OECD TAX-BENEFIT MODEL FOR LATVIA

Description of policy rules for 2018



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Preface

The [OECD Tax-Benefit model \(TaxBEN\)](#) incorporates detailed policy rules for tax liabilities and benefit entitlements as they apply to individual families across OECD member countries. Its main use is to calculate the amount of taxes that people are liable to pay, and the government transfers they are likely to receive, in different family and labour-market situations. The model includes legal policy rules that are relevant for people of **working age** (from 18 years old until the statutory retirement age) and their dependent children. Income tax liabilities and benefit entitlements are calculated for a broad set of *stylised* families (“vignettes”, e.g. a married couple of 40 years old adults with two children aged 4 and 6 respectively). Model users are free to change many of these characteristics, including the age and number of children, activity status of adult members, hours of work, current and past earnings levels, unemployment duration, social contribution records, and housing-related costs. The model has been updated annually since the early 2000s for most OECD countries.

TaxBEN’s policy scope includes the main taxes on employment income (earnings), social contributions paid by individuals and by employers, as well as the main cash and near-cash benefit programmes, including unemployment benefits, family benefits, guaranteed minimum-income benefits, cash housing benefits, and employment-conditional benefits. Disability benefits and support for non-parental childcare are included for a sub-set of countries and years. The most important policy areas that are outside the scope of the model include taxes on wealth (e.g. taxes on immovable and unmovable properties, including local taxes), indirect taxes (e.g. VAT), early-retirement benefits, sickness benefits and in-kind transfers (e.g. free school meals, subsidised transport and free health care).

This report describes the taxes and benefits that are included in the model and focuses on the rules that are relevant for family, individual and labour-market circumstances that are within its scope. The **Annex** provides information on other cash benefits and taxes on employment incomes that can be relevant for some members of the working-age population, but which are not included in the TaxBEN model.

Reading notes and further details on the scope and content of this report

- The **reference date** for policy rules described in this report is **January 1, 2018**.
- **Guidelines for completing and updating this report** are provided [here](#).
- Further information on the model, model results, and references to reports and analytical uses is available on the [project website](#). A [methodology](#) document provides a full description of the assumptions underlying the model as well as the model choices that users can make. The symbol  in the text provides a link to a glossary of technical terms.
- Section titles provide the names of taxes and benefits as they are known in the country: first, direct translation into English, then (in brackets) the name in the national language.
- In order to facilitate transparency between the policy descriptions and the associated code in the model, the **variable names** are indicated in the text in square brackets using the following format: **[variable name]**, for instance: **[AW]** for the average wage.

The OECD tax-benefit model for Latvia: Policy rules in 2018

1. Reference wages

The 2018 preliminary average wage [**AW**] is EUR 11 858.¹

The minimum wage [**MIN**] in 2018 is EUR 430 per month. The annual minimum wage is computed by multiplying the minimum monthly wage (as of January 1, 2018) by 12, i.e. EUR 430 * 12 = EUR 5160.

2. Unemployment benefits

2.1. *Unemployment benefit* (*Bezdarbnieka pabalsts*)

Variable names: [**UI_p**; **UI_s**]

This is an unemployment insurance benefit. It is contributory, not means-tested and not taxable. 

2.1.1. *Eligibility conditions*

Age: Person has reached 15 years of age and has not reached the statutory pension age necessary for the granting state old-age pension (or earlier retirement old-age pension).

Contribution/employment history: Unemployment benefit is granted to an unemployed person, whose length of period of insurance is not less than one year and for whom mandatory social insurance contributions have been paid for a period of not less than 12 months within the last preceding 16 months before obtaining of the status of unemployed.

Behavioural requirements and related eligibility conditions:  TaxBEN assumes that the following compulsory conditions are satisfied when simulating unemployment benefits.² The benefit claimant is:

1. registered with the State Employment Agency;
2. not working (is not considered to be an employee or a self-employed person);
3. involuntarily unemployed;³

¹ AW refers to the Average Wage estimated by the [Centre for Tax Policy and Administration](#). For more information on methodology see the latest [Taxing Wages publication](#).

² Details on behavioural requirements and sanction provisions for unemployment benefits are reported in regularly updated companion reports, see Immervoll and Knotz (2018, forthcoming), [Langenbacher \(2015\)](#) and [Venn \(2011\)](#).

³ Eligibility for unemployment benefit in Latvia does not depend on whether the job loss is “voluntary” or not. Voluntarily dismissal affects the granting procedure of unemployment benefit. If a person has become unemployed on the basis of his or her notice (voluntary) or due to a

4. actively seeking employment;
5. able to work and ready to enter into employment relationships without delay;
6. not acquiring an education at a general secondary or vocational secondary education institution, excluding evening schools;
7. not performing commercial activities or his or her commercial activities have been suspended in accordance with regulatory enactments;
8. not completely state supported.

2.1.2. *Benefit amount*

Calculation base: The average insurance contribution wage for determining unemployment benefit is calculated as an average of the person's insurance contribution wages (i.e. monthly incomes from which state social insurance contributions are made) for a 12 month period, such period ending two calendar months prior to the month in which the person became unemployed. The two months when the person had the highest and the lowest contributions wage are not taken into account when computing the average.

Benefit amount: Unemployment benefit amount depends on persons' social insurance contribution wage and the length of the insurance period:

Insurance Record	% of average social insurance contributions wage
from 1 to 9 years (inclusive)	50%
from 10 to 19 years (inclusive)	55%
from 20 to 29 years (inclusive)	60%
above 30 years (inclusive)	65%

The unemployment benefit decreases over time. The following share of the full benefit is paid depending on duration of the unemployment:

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

2.1.3. *Benefit duration*

The maximum unemployment benefit payment period is 9 months.

After expiration of unemployment benefit a person can apply for next unemployment benefit only after unemployment insurance contributions have been made for not less than 12 months in time period of 16 months.

2.1.4. *Means test*

The benefit is not means-tested.

violation, the unemployment benefit shall be granted 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 people to retain their jobs and not to violate labour contracts and working regulations.

2.1.5. Tax treatment

The benefit is not taxable.

2.1.6. Interactions with other components of the tax-benefit system

One cannot receive the parental benefit and unemployment benefit at the same time. Payment of the parental benefit is suspended for the duration of the unemployment benefit. Payment of the unemployment benefit is suspended for the duration of the sickness benefit.

2.1.7. Combining benefit receipt and employment/starting a new job

The payment of unemployment benefit shall be temporary suspended if an unemployed person obtains the status of an employee for a time period of up to two months (inclusive). The benefit is terminated in case of longer employment duration.

3. Social assistance and housing benefits

3.1. Guaranteed minimum income benefit (*Pabalsts garantētā minimālā ienākumu līmeņa nodrošināšanai*)

Variable name: **[SA]**

This is a non-contributory benefit, means-tested and not taxable.

The benefit amounts vary by municipality. In the model the rules for Riga municipality are simulated.

3.1.1. Eligibility conditions

The benefit shall be granted and paid to a household or separately living person whose income level is lower than GMI level. GMI benefit is paid on the basis of net income and assets test.

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

3.1.2. Benefit amount

GMI benefit is calculated as a difference between GMI level for a household or separately living person and their income. The standard level of GMI per person at the national level is set by the Cabinet of Ministers: 53.00 EUR per month. Calculation of the benefit (in the standard case) does not involve application of the equivalence scale – the GMI level is the same for all adults and children in the household.

Amount of GMI benefit = GMI x m – net household income

GMI – GMI level;

m – number of persons in household.

The local municipalities are eligible to determine the level of GMI for varied social groups, for example: children, persons receiving old-age pension or disability pension. However, the amount can't be lower than the standard GMI level (53.00 EUR) and can't

exceed 128.06 EUR per month. In the model, the rates for Riga municipality are used: 56.91 EUR per month for working-age adults, 64.03 EUR for children (<18), and 128.06 EUR for old-age and disability pensioners (the latter group is not covered by the model).

In accordance with the Regulation of the Cabinet of Ministers of 17th of June 2009 each municipality is allowed to use the formula below.

Amount of GMI benefit = $(GMI^1 \times n^1 + GMI^2 \times n^2 + GMI^3 \times n^3 - \text{net household income})$

GMI^1 – GMI level for adults in the household;

n^1 - number of adults in the household;

GMI^2 – GMI level for children or another social group;

n^2 - number of children or another social group in the household;

GMI^3 – GMI level for old-age pension receivers or another social group;

n^3 - number of old-age pension receivers or another social group in the household.

Maximum amount GMI benefit per month:

For separately living person	For Household
53.00 EUR – 128.06 EUR	Since December, 2009 there is no limit for the maximum amount for households

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

GMI benefit can be paid in cash or in kind.

3.1.3. *Benefit duration*

Benefit is granted for the period a family (person) has been assigned a needy family (person) status. Needy family (person) status is assigned for the period of 3 to 6 months. After this period the situation of family (person) can be re-evaluated and needy status can be granted repeatedly. Also, if during the period when family (person) has obtained a needy family (person) status there have taken place changes in the family structure, income level or social status, a social service office has to make evaluation repeatedly. The decision on the assignment of needy status and GMI benefit granting shall be taken by the social service office within one month.

Needy family status and GMI benefit is granted to a family for a period of one month, if family's income level complies with the level defined by legislation, but other criteria are not satisfied.

3.1.4. *Means test*

When estimating the assistance amount all net income of household is taken into account. The following benefits are not considered as income: family state benefit (including supplement), childbirth allowance, disabled child care allowance, supplement to the state family benefit for disabled child, benefit to a disabled person requiring special care, transport allowance for disabled persons with restricted mobility, funeral benefit, support

for children suffering from coeliac disease, benefit for the services of an assistant, social assistance benefits previously disbursed by the local government, social guarantees to an orphan and a child left without parental care after termination of extra-familial care, monetary funds obtained from charity funds, student loans, financial benefit obtained as a result of social campaigns.

The Cabinet of Ministers determines the types of property and assets that are not taken into account in the means test: real property or a part thereof which is used as dwelling of the household, the land property which together with the land within the composition of the immovable property referred before does not exceed 5 ha for the family (person), and also holding's facilities (for example, garage, barn, granary, shed, cellar, bath-house, garden-house) or not more than two holding's facilities on the rented land functionally belonging to such immovable property, the child's property and cash savings, the housing furniture as well as clothes and household objects which belong to the person (household) at the time of the claim, movable property – mechanical vehicles – no more than one unit for the family (person), shares which cannot be disposed of due to pending insolvency proceedings, accumulated savings up to 128.06 EUR per household.

Calculating the average income, the social service office of the local government shall exclude the amount of money which is paid by the person as maintenance for a child. The excluded amount shall not exceed the minimum amount of maintenance for each child determined in the State, except the case when maintenance is paid according to enforcement order.

Municipalities may establish additional criteria, including landed property, woods and buildings, cars and/or other vehicles.

Each local government in binding regulations can determine the amount of monthly credit sum which can be excluded from the amount of income calculating the average income (for example credit payments).

3.1.5. Tax treatment

The benefit is not taxable.

3.1.6. Interaction with other components of the tax-benefit system

GMI benefit receipt doesn't affect the right of a person to claim other social assistance benefits. GMI benefit is included in the means-test for housing benefit.

3.1.7. Combining benefit receipt and employment/starting a new job

GMI benefit receipt can be combined with employment if the means-test and other eligibility conditions are satisfied.

In order to improve coverage of social assistance benefits and introduce additional incentives to motivate the beneficiaries of social assistance to get a paid job (stimulation of making work pay), the Amendments to the Law on Social Services and Social Assistance came in force as of 9 February 2017. The amendments introduced disregards on net earnings (to the extent of the net monthly minimum wage) for 3 months after starting employment.

3.2. *Housing benefit (Dzīvokļa pabalsts)*

Variable name: **[HB]**

This is a non-contributory benefit, means-tested and not taxable.

The eligibility rules, amounts and payment procedures vary by municipality. In the model the simplified rules for Riga municipality are simulated.

3.2.1. *Eligibility conditions*

The rights to housing benefits are granted to households or separately living persons being unable to meet basic needs. Housing costs and rules defining whether a family or a person is eligible to receive the benefit vary by municipality.

In Riga municipality the income of a claimant must not exceed 355.72 EUR per month for a separately living person and 284.57 EUR per month per person for multi-person household.

3.2.2. *Benefit amount*

In some municipalities benefit is estimated as a difference between the guaranteed minimum income (GMI) level plus living space consumption costs and public utility service costs minus net income of claimant; in other municipalities the benefit is a fixed amount.

Housing benefit in Riga municipality 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).

For example in Riga "K" is comprised of housing expenditure items (e.g., heating, water, electricity, etc.) and average consumption standard per person in the household according to price list which are stated by municipal regulations.

In the model, it is assumed that only the housing costs up to the limits defined by average expenditure on housing (see the table below) are covered by the benefit.

Composition of consumption expenditures by number of persons, 2016
(Average per household member per month, EUR)

	Households				
	1 person	2 persons	3 persons	4 persons	5 and more persons
Consumption expenditure - TOTAL	455.87	370.83	321.19	291.69	226.45
Housing, water, electricity, gas and other fuels	95.28	56.83	44.02	39.73	25.08

Source: Central Statistical Bureau

For example, for a single person under Social Assistance (SA), the limit of actual housing costs is EUR 1143.36 (95.28*12) per year. This is smaller than the housing costs assumed in the model – 20% of the AW (EUR 2034.68). Thus, the costs above 1143.36 EUR are ignored when the housing benefit is calculated.

Since the data for 2018 is not available, in the model the expenditure for 2016 is adjusted upwards to 2018 using CPI (1.0584).

Housing benefit can be paid in cash or in kind.

3.2.3. *Benefit duration*

Benefit duration is established by local municipality's regulation. In some municipalities housing benefit is granted on a monthly basis, in other municipalities - once during the heating season. Benefit claimants must declare their income every 3 to 6 months. However, a large number of municipalities grant housing allowance once a year.

3.2.4. *Means test*

When estimating the assistance amount all net income of household is taken into account. The types of income excluded from calculation of housing benefit are the same as in case of GMI benefit.

3.2.5. *Tax treatment*

Benefits are not taxable.

3.2.6. *Interaction with other components of the tax-benefit system*

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

3.2.7. *Combining benefit receipt and employment/starting a new job*

Housing benefit receipt can be combined with employment if the means-test and other eligibility conditions are satisfied.

In order to improve coverage of social assistance benefits and introduce additional incentives to motivate the beneficiaries of social assistance to get a paid job (stimulation of making work pay), the Amendments to the Law on Social Services and Social Assistance came in force as of 9 February 2017. The amendments introduced disregards

on net earnings (to the extent of the net monthly minimum wage) for 3 months after starting employment.

4. Family benefits

4.1. Family state benefit (*Ģimenes valsts pabalsts*)

Variable name: [FB_main, FB_supp]

This is a non-contributory benefit, not means-tested and not taxable.

4.1.1. Eligibility conditions

Family state benefit shall be granted to a person (a parent or care-giver) that is raising a child, which is at least one year old and not older than 15; or, if older than 15 (but not older than 20), attends general or professional educational school and is not married.

4.1.2. Benefit amount

The amount of family state benefit is 11.38 EUR per month for the first child, twice as much for the second child (22.76 EUR), 3 times as much for the third child (34.14 EUR) and 4.4 times as much for the fourth and following children (50.07 EUR).

As of March 2018 the financial support for families with two and more children will be increased: families with two children (children from 1 year of age up to age 20) will receive supplement to the state family benefit amounting 10 EUR per month, families with three children – 66 EUR per month, the amount of supplement to the state family benefit is increasing by 50 EUR for fourth and each subsequent child up to age 20, i.e. families with four children will receive supplement at the amount of 116 EUR per month, families with five children – 166 EUR per month, etc.

4.1.3. Benefit duration

As long as the eligibility conditions hold.

4.1.4. Means test

The benefit is not means-tested.

4.1.5. Tax treatment

The benefit is not taxable.

4.1.6. Interaction with other components of the tax-benefit system

The benefit is universal and can be received together with any other benefit.

4.1.7. Combining benefit receipt and employment/starting a new job

The benefit is universal; employment doesn't affect benefit receipt.

4.2. Maintenance Guarantee Fund (*Uzturliīdzekļu garantiju fonds*)

Variable name: [lp_alim]

This is a non-contributory benefit, not means-tested and not taxable.

4.2.1. Eligibility conditions

The Administration of the Maintenance Guarantee Fund (which is under the responsibility of the Ministry of Justice) disburses child support (minimum maintenance amount) to children in case if one of the parents does not fulfil his/her obligations towards the child and does not ensure the minimum amount of child support. Means of subsistence (alimony) is granted to children till they reach the age of 21 (if child attends basic, general or professional educational school) in the event of their parent's divorce.

4.2.2. Benefit amount

The amount of payment is 98.90 EUR for each child aged below 7, each child aged 7-17 receives 118.25 EUR, but not more than the amount specified in the court adjudication, as well as not exceeding the amount determined by the Cabinet of Ministers.

4.2.3. Benefit duration

As long as eligibility conditions hold.

4.2.4. Means test

Not means-tested.

4.2.5. Tax treatment

Non-taxable.

4.2.6. Interaction with other components of the tax-benefit system

The benefit is universal and can be received together in any other benefit.

4.2.7. Combining benefit receipt and employment/starting a new job

Employment doesn't affect benefit receipt.

4.3. Childcare benefit (*Bērna kopšanas pabalsts*)

Variable name: `[childcare_benefit]`

This is a non-contributory benefit, not means-tested and not taxable.

4.3.1. Eligibility conditions

The childcare benefit is given to all families with a child under 2 years old. The benefit can't be received simultaneously with maternity leave benefit.

4.3.2. Benefit amount

The amount of childcare benefit is:

- for persons who are raising children aged under 1.5: 171 EUR per month per child;
- for persons who are raising children aged between 1.5 to 2: 42.69 EUR per month per child.

4.3.3. *Benefit duration*

As long as eligibility conditions hold.

4.3.4. *Means test*

Not means tested.

4.3.5. *Tax treatment*

Non-taxable.

4.3.6. *Interaction with other components of the tax-benefit system*

The benefit is universal and can be received together in any other benefit, but is counted as income in the means tests for social assistance and housing benefit. The benefit can't be received simultaneously with maternity leave benefit.

4.3.7. *Combining benefit receipt and employment/starting a new job*

Both working and non-working parents can receive child care benefit.

5. Childcare for pre-school children

The **reference date** for the policy rules described in this section is **January 1, 2018**.⁴

Children up to 7 years of age participate in a 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. Participation is compulsory for 5 and 6-year old children and municipalities must provide a place from this age, but children can start attending public kindergartens from the age of 18 months. The Ministry of Education and Science provides state earmarked subsidies to municipalities and private education institutions for the pre-school education (5 and 6-year old children) teachers' remuneration.

5.1. *Gross childcare fees*

Variable name: `[LVcc_cost]`

In public kindergartens (the example considered in the model), there are no tuition costs but parents have to pay fees to cover management expenses and children's meals. These fees are set by each municipality. Meals are provided three times a day (breakfast, lunch and afternoon snacks) at a low cost, usually totalling EUR 2 to 4 per day. In the model, a fee of EUR 3 per day is used. Some charges may be made for additional services, for instance, foreign language classes for children.

There are also private kindergartens and child-minding services, which are typically more expensive, though fees for these services are not considered in the model.

⁴ The childcare module of the tax-benefit model is updated every three year starting from 2009.

5.1.1. Discounts for part-time usage

If a child stays in an institution for only part of the day, the fee that parents have to pay for meals remains the same. There are different payment rules in private institutions.

5.2. Fee discounts and free provision

Public childcare provision is free. Municipalities may reduce the fees for meals for children from low-income families, and most of those in rural areas do. However, no discounts are included in the model.

Additional support is offered to parents of children who do not have access to public childcare due to availability. This support is paid directly to private education institutions which particular child is attending (not covered by the model).

Since 2013 to 31 May 2016 financial support was provided by both central and local governments for parents of children aged 1.5 - 4 years and who are not benefiting from public childcare. Central government support for full-time child care was up to EUR 142 per month, with the condition that state and municipal support combined (most municipalities already provide some support addressing such situations) does not exceed a limit of EUR 228 per child per month in Riga and approximately EUR 185 elsewhere.

In December 2015, the amendments to the Law on Education were introduced. They declared that the municipality is responsible to provide co-financing for the children who started pre-school education in the private education institutions due to the long waiting lists.

Since January 1, 2017, municipal support is differentiated. According to the methodology developed by the Ministry of Environmental Protection and Regional Development, municipalities calculate separately support for children aged 1.5 to 4 and for children who are provided with compulsory basic education (5-6 years old).

The average amount of municipal support for children aged 1.5-4 is EUR 212.61 per month. The amount of provided support varies from EUR 150 to 278 per month. For children undergoing compulsory pre-school education, the average municipal support is EUR 155.26 per month. The amount of provided support varies from EUR 91 to 212.17 per month⁵.

The local governments does not have a binding requirement to ensure co-financing for children who are using child minding (nanny) services, however, in total, 20 municipalities according to their budgetary possibilities, have determined the amount of support for children using childcare services. The average monthly support for one child is EUR 134.8 per month. The amount of support varies from EUR 60 to 188 per month.

In 2018 in total, 20 municipalities have set the amount of support for children using nannies' services. In 2018, the average municipal support is 142.14 euro. Compared to 2017, the average support for nurses by municipalities has increased by 8.82 euro.

In 2018, average municipal support for children from 1,5 to 4 years is 221.65 euro, and for children undergoing compulsory education for basic education, the municipal support

⁵ The municipality support for 5-6 year-olds is less than for 1.5-4 years old because for 5-6 year-old children's education pre-school education institutions also receive state subsidies for teachers' salaries.

is € 156.73 euro. Compared to 2017, the average local government support for children from 1,5 to 4 years has increased by EUR 9.32. For the children, who are undergoing compulsory education for basic education, the municipal support has grown by 0.04 euro.

In Riga, the amount of support in 2018 for children from 1,5 to 4 years is 231 euro and for children undergoing compulsory pre-school education Riga municipality support is 174,88 euro. Riga support for children who are using child minding (nanny) services is 129.99 euro.

5.3. Child-care benefits for formal centre-based care

Variable name: [\[cc_benefit\]](#)

There are no special childcare benefits to parents of children in public kindergartens.

5.4. Child care allowance for children not using child care centers

None.

5.5. Tax concessions for childcare expenditures

None.

6. Social security contributions and payroll taxes

6.1. Social security contributions (Sociālās apdrošināšanas obligātās iemaksas)

Variable names: [\[SOCSEC_p\]](#); [\[SOCSEC_s\]](#); [\[SSCR_p\]](#); [\[SSCR_s\]](#)

In 2018 the rate of compulsory social insurance contribution if the employee is insured for all social insurance types is 35.09% of wage before taxation, where the employer pays 24.09% and the employee – 11.00%. Social insurance contributions cover:

- state pensions insurance – 24.50% (from state pensions insurance 14% finances the notional defined-contribution (NDC) or 1st pillar pension scheme and 6% is directed to the person's individual account within the state mandatory funded defined contribution pension scheme (FDC) or 2nd pillar pension scheme);
- unemployment insurance – 1.84%;
- occupational accident insurance – 0.53%;
- disability insurance – 2.23%;
- maternity and sickness insurance – 3.65%;
- parental insurance – 1.34%;
- health insurance – 1.00%.

In 2018 the maximum object of mandatory social payments is 55 000 EUR per year.

7. Taxes

Taxation in Latvia is on the individual level. Taxation period is calendar year.

7.1. Personal income tax (Iedzīvotāju ienākuma nodoklis)

Variable name: [\[IT_p\]](#); [\[IT_s\]](#)

Shall be paid for the natural person incomes. Since 2018 the PIT rate is progressive.

7.1.1. Tax allowances

Basic tax allowance (non-taxable minimum):

Since 2016 the differentiated non-taxable minimum was introduced meaning that the amount of basic non-taxable minimum is not fixed but depends on the income level of taxpayer.

In 2018 the differentiated non-taxable minimum ranges from 0 to 2,400 EUR per year (0-200 EUR per month), in 2019 - from 0 to 2,760 EUR per year (0-230 EUR per month) and in 2020 - from 0 to 3,000 EUR per year (0-250 EUR per month).

In 2018 the maximal tax allowance amount is 2,400 EUR per year (TA_{max}) (200 EUR per month) and it will be applied to persons with the taxable income below 5,280 EUR per year (Y_1) (440 EUR per month). If taxable income is between 5,280 EUR per year and 12,000 EUR per year (1,000 EUR per month), the differentiated annual non-taxable minimum is calculated according to formula bellow. The allowance gradually decreases until it reaches 0 (or not be applied) for persons with the taxable income above 12,000 EUR per year. The same calculation will be in 2019 and 2020 with relevant year data.

In 2018 the differentiated annual non-taxable minimum is calculated according to the following formula:

$$DNTM = TA_{max} - 0.35714 \times (AI - Y_1)$$

From 2018 the differentiated non-taxable minimum is applied every month based on the State Revenue Service (SRS) forecast of person's annual income. (In 2017 the non-taxable minimum was applied in the minimum amount for all taxpayers (60 EUR) and only during the next tax year, if taxpayer submits annual tax return, it was applied on the basis of the data regarding person's annual taxable income).

Tax allowance on dependants:

Tax allowance for each dependant is raised in 2018 to 2400 EUR per year (200 EUR per month), in 2019 to 2760 EUR per year (230 EUR per month) and in 2020 to 3000 EUR per year (250 EUR per month). In 2017 it was 2100 EUR per year (175 EUR per month).

The taxpayer can apply relief for a child below 18 years old and for a child below 24 years old if he or she continues the acquisition of a general, professional, higher or special education. The child allowance relates to taxpayer's child and in certain cases - sisters, brothers, grandchildren, as well as guardianship or dependent persons.

As of 2016, the rule of law narrowed, removing allowances for unemployed spouse, parents or grandparents, except if this persons are with disabilities. As of 2017, the rule of law extended for unemployed dependent spouse who is responsible by child with disabilities.

In addition, as of July 1, 2018, the allowance is applicable for unemployed spouse who is taking care of:

- one child below 3 years old;
- three or more children below 18 years or below 24 years old (if in education), of which at least one is below 7 years old;
- five children below 18 years or below 24 years old (if in education).

Since the reference date in the model is 1 January 2018, this allowance is introduced in the model starting from 2019.

Other allowances:

- Social security contributions paid by individual
- Solidarity tax paid by individual

7.1.2. Tax base

All benefits considered in the model are not taxable. Tax base is calculated as employment income minus tax allowances. Tax allowances are first subtracted from the lowest income tax bracket, then the remaining tax allowances are subtracted from the following tax bracket.

7.1.3. Income tax schedule

In 2017 Latvian government approved the Tax policy strategy for 2018-2021. One of the measures of the tax reform is the progressive income tax system introduction from 2018 (in 2017 the PIT rate was a flat - 23%).

From 2018 the Personal Income Tax rate is:

- 20% - income up to 20 004 EUR per year;
- 23% - for income exceeding 20 004 but not exceeding 55 000 EUR per year;
- 31.4% - for income exceeding 55 000 EUR per year.

The tax rate 20% and 23% (depending on the level of income) is applicable monthly in workplaces where a payroll tax book is submitted, but rate 23% should be applied in all other workplaces.

The rate 31.4% is calculated only in annual tax return, but during the year, the tax is paid as Solidarity tax for revenue above 55,000 EUR per year. SCC from incomes above 55,000 EUR per year is not paid.

7.1.4. Tax credits

There are no tax credits in Latvia.

7.2. Solidarity tax (Solidaritātes nodoklis)

Variable names: `[soltax_ee_p; soltax_ee_s]`

From 1st of January 2016 a new tax has been introduced – solidarity tax. The tax rate is set at the same level as the social security contributions rate. The tax is paid for the income exceeding the maximum amount of the social security contributions object. The purpose of this tax is to eliminate existing regressivity in the labour tax system and to equalize the tax burden on labour between low-wage earners and the high wage earners. This problem appeared when the social contribution ceiling was re-introduced in 2014. In 2018 the ceiling is raised to 55 000 EUR per year (in 2017 was 52 400 EUR per year). The tax period is the calendar year.

In 2016 and 2017 Solidarity tax revenue was transferred to the state budget and was not tied to social services. From 2018 the Solidarity tax is transformed to a progressive PIT rate 31.4%.

In 2018 Solidarity tax is paid for the income exceeding 55 000 EUR per year. Solidarity tax rate is 35.09% and its distribution is:

Employer's pays:		24,09%
	Funded pension (2nd pillar pension scheme)*	6,00%
	Private pension in the Fund's Pension Plan (3rd pillar pension scheme)*	4,00%
	State Pension	13,59%
	Health care	0,50%
Employee's pays:		11,00%
	Personal income tax**	10,50%
	Health care	0,50%

* If a person is not a member of a funded pension scheme, a private pension fund will be transferred 10%

Solidarity tax applies to all socially insured individuals – employees, self-employed, if their income over a calendar year exceeded the maximum amount of mandatory contribution of the statutory social insurance. Employers are also subject to solidarity tax (in the same way as they are liable for paying employer social insurance contributions).

Annex: Other benefits and direct taxes

This section provides a brief description of other cash benefits and taxes on employment incomes in Latvia that are relevant for some members of the population below the statutory retirement age, but which are not included in the OECD tax-benefit model.

State Social Security Benefit (Valsts sociālā nodrošinājuma pabalsts)

State social security benefit is granted to a child that has not reached the majority (18 years) who is not married and has lost one or both breadwinners (parents). 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. The minimum amount of state social security benefit for each child is:

- up to 6 years old (including) – 92.50 EUR;
- up to 6 years old (including) for a disabled child since his childhood – 106.72 EUR;
- from the age of 7 onwards – 111.00 EUR.

Benefit in an emergency situation (Pašvaldības pabalsti ārkārtas situācijās)

The local government grants a benefit in an emergency situation without means testing to a person (or a family) 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.

Other social assistance benefits (Citi pašvaldību sociālās palīdzības pabalsti)

Local government is entitled to disburse other benefits with the aim to maintain the basic needs stated by Law on Social Services and Social Assistance, for example, health care, mandatory education, etc. The amount and payment procedures, as well as persons who are entitled to this allowance have to be determined by local municipality's binding regulation. These benefits can be paid in cash or in kind. Local government is entitled to disburse other benefits only if the justified demand for GMI benefits has been satisfied.

Supplement to family state benefit for disabled child (Piemaksa pie ģimenes valsts pabalsta par bērnu invalīdu)

If family state benefit is granted for a handicapped child under 18, an additional payment at the amount of 106.72 EUR 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 (Bērna piedzimšanas pabalsts)

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. The right to receive the child birth benefit is granted since the 8th day after the child has been born or since the day when guardianship is established. The amount of child birth benefit is 421.17 EUR for every born child (one-off payment).

Disabled child care benefit (Bērna invalīda kopšanas pabalsts)

This benefit 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 213.43 EUR per month. The state also covers social insurance contribution payments on behalf of persons receiving disabled child care benefit amounting to 20% from 71.14 EUR.

Entrepreneurship risk state duty (Uzņēmējdarbības riska valsts nodeva)

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 Employee Claims Guarantee Fund to satisfy employees claims in the event of the insolvency of enterprise. The holder and manager of the resources of the Employee Claims Guarantee Fund shall be the State agency "Insolvency Administration". From the Employee Claims Guarantee Fund the following claims may be covered:

1. work remuneration for the last three months of the employment relationship during 12 months before entering insolvency;
2. reimbursement for annual paid leave (holiday payment) which an employee became entitled to receive within 12 month period before entering insolvency;
3. reimbursement for other types of paid absence within the last three months of the employment relationship during the 12 months before entering insolvency;
4. severance pay in minimum statutory amount stated by the law;
5. reimbursement for damages due to an accident or occupational disease for the whole unpaid period;
6. reimbursement for damages to be paid for four subsequent years ahead.

In 2018 the monthly value of duty is 0.36 EUR per payroll employee.