

# THE OECD TAX-BENEFIT MODEL FOR LATVIA

Description of policy rules for 2019



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## Preface

This report provides a detailed description of the tax and benefit rules in Latvia as they apply to individuals of working age and their dependent children. It also includes outputs from the [OECD Tax-Benefit model \(TaxBEN\)](#), which puts all these complex rules into a unified methodological framework that enables international comparisons of how tax liabilities and benefit entitlements affect the disposable income of families in different labour-market circumstances.

TaxBEN calculates tax liabilities and benefit entitlements 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. Users can access the model through a user-friendly [web interface](#) that allows changing many of these family and individual characteristics. Available options include the age and number of children, the economic activity of adult members, working hours, wage rates, unemployment durations, and years of social security contributions. The OECD has updated the model annually since 2001 for most OECD and EU 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 as well as maternity and parental leaves benefits 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 policy rules that are relevant for family, individual and labour market circumstances that are within the scope of the TaxBEN model. 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 are not included in the 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, 2019**.
- **Guidelines for completing and updating this report** are provided [here](#).
- Further information on the model, model results, and related analytical reports 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 2019

### 1. Reference wages and other reference amounts

Average wage [**AW**]: The OECD tax-benefit model uses Secretariat estimates of the average full-time wage (available [here](#))<sup>1</sup>. If Secretariat estimates are not available yet, the model uses wage projections obtained by applying forecasted wage growth<sup>2</sup> to the latest available wage estimate.

The minimum wage [**MIN**] in 2019 is EUR 430 per month. The annual minimum wage is computed by multiplying the minimum monthly wage (as of 1 January 2018) by 12, i.e. EUR 430 \* 12 = EUR 5 160.

### 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.<sup>3</sup> 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);

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<sup>1</sup> Average Wages are estimated by the [Centre for Tax Policy and Administration](#) at the OECD. For more information on methodology see the latest [Taxing Wages publication](#).

<sup>2</sup> Wage growth projections are based on [OECD Economic Outlook](#) and [EU economic forecasts](#) (for non-OECD countries).

<sup>3</sup> Details on behavioural requirements and sanction provisions for unemployment benefits are reported in regularly updated companion reports, see [Immervoll and Knotz \(2018\)](#), [Langenbacher \(2015\)](#) and [Venn \(2011\)](#).

3. involuntarily unemployed;<sup>4</sup>
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.

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<sup>4</sup> 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 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.

#### 2.1.4. Means test

The benefit is not means-tested.

#### 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 is granted to a family or a separately living person who is recognized as poor. A family (person) is considered poor if the average income per family member during the last three months does not exceed EUR 128.06, and it does not own any funds or property beyond the limits defined in the law.

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: EUR 53.00 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 cannot be lower than the standard GMI level (EUR 53.00) and cannot exceed EUR 128.06 per month. In the model, the rates for Riga municipality are used: EUR 56.91 per month for working-age adults, EUR 64.03 for children (<18), and EUR 128.06 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 17 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
EUR 53.00 – 128.06	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 EUR 128.06 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 EUR 320 per month per person for multi-person household or separately living person. In case of a separately living old-age or disability pensioner (or recipient of state social security benefit) the income limit is EUR 400 per month (*not covered by the model*). A family or a separately living person who meets these criteria receives a status of low-income family.

#### 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 1 143.36 (95.28\*12) per year. This is smaller than the housing costs assumed in the model – 20% of the AW (EUR 2 034.68). Thus, the costs above EUR 1 143.36 are ignored when the housing benefit is calculated.

Since the data for 2019 is not available, in the model the expenditure for 2016 is adjusted upwards to 2019 using CPI (1.0874).

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 EUR 11.38 per month for the first child, twice as much for the second child (EUR 22.76), 3 times as much for the third child (EUR 34.14) and 4.4 times as much for the fourth and following children (EUR 50.07).

As of March 2018 the financial support for families with two and more children has been increased: families with two children (children from 1 year of age up to age 20) receive supplement to the state family benefit amounting EUR 10 per month, families with three children – EUR 66 per month, the amount of supplement to the state family benefit is increased by EUR 50 for fourth and each subsequent child up to age 20, i.e. families with four children receive supplement at the amount of EUR 116 per month, families with five children – EUR 166 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 (*Uzturlīdzekļu 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 EUR 103.20 for each child aged below 7, each child aged 7-17 receives EUR 122.55, 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: EUR 171 per month per child;
- for persons who are raising children aged between 1.5 to 2: EUR 42.69 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 cannot 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. Net costs of Early Childhood Education and Care

The **reference date** for the policy rules described in this section is **1 January 2019**.

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 for 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 Riga, parents have to pay for meals EUR 1.99 per day (*Riga is assumed in the model*). Some charges may be made for additional services, for instance, foreign language classes for children. Such fees are not covered in the model.

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.

#### 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. In Riga, families with 3

children or more as well as families with poor or low-income status are eligible for free meals (see Sections 3.1.1. 3.2.1. for definition of poor and low-income families).

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*).

Between 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. Since December 2015, municipalities are responsible to provide co-financing for all children who started pre-school education in the private education institutions due to the long waiting lists. Since 1 January 2017, municipal support is differentiated for children aged 1.5 to 4 and for children 5-6 years old.

The local governments do not have a binding requirement to ensure co-financing for children who are using child minding (nanny) services, however, in total, in 2018 20 municipalities according to their budgetary possibilities, have determined the amount of support for children using childcare services.

In 2018, average municipal support for children from 1.5 to 4 years is EUR 221.65, and for children undergoing compulsory pre-school education - EUR 156.73<sup>5</sup>. The average municipal support for child minding (nanny) services is EUR 142.14.

In Riga, the amount of support in 2018 for children from 1.5 to 4 years is EUR 231 and for children undergoing compulsory pre-school education - EUR 174.88. Riga support for children who are using child minding (nanny) services is EUR 129.99.

### **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. In-work benefits**

None.

## **7. Social security contributions and payroll taxes**

### **7.1. *Social security contributions (Sociālās apdrošināšanas obligātās iemaksas)***

Variable names: **[SOCSEC\_p; SOCSEC\_s; SSCR\_p; SSCR\_s]**

In 2019 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 2019 the maximum object of mandatory social payments is EUR 62 800 per year.

## 8. Taxes

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

### 8.1. *Personal income tax (Iedzīvotāju ienākuma nodoklis)*

Variable name: **[IT\_p; IT\_s]**

Shall be paid for the natural person incomes. Since 2018, the Personal Income Tax rate is progressive.

#### 8.1.1. *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 EUR 0 to 2 400 per year (EUR 0-200 per month), in 2019 - from EUR 0 to 2 760 per year (EUR 0-230 per month) and in 2020 - from EUR 0 to 3 000 per year (EUR 0-250 per month).

In 2019 the maximum tax allowance amount is EUR 2760 per year ( $TA_{max}$ ) (EUR 230 per month) and it is applied to persons with the taxable income below EUR 5 280 per year ( $Y_1$ ) (EUR 440 per month). If taxable income is between EUR 5 280 per year and EUR 13 200 per year (EUR 1 100 per month), the differentiated annual non-taxable minimum is calculated according to formula bellow. The allowance gradually decreases until it reaches zero (or not be applied) for persons with the taxable income above EUR 13 200 per year.

In 2019, the differentiated annual non-taxable minimum is calculated according to the following formula:

$$DNTM = TA_{max} - 0.34848 \times (AI - Y_1)$$

Since 2018, the differentiated non-taxable minimum is applied every month based on the State Revenue Service (SRS) forecast of person's annual income.

##### **Tax allowance on dependants:**

Tax allowance for each dependant is raised in 2019 to EUR 2 760 per year (EUR 230 per month) and in 2020 to EUR 3 000 per year (EUR 250 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 well as the taxpayer can apply relief for unemployed dependent spouse who is responsible by child with disabilities.

As of 1 July 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).

**Other allowances:**

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

*8.1.2. 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.

*8.1.3. 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%).

In 2019, the Personal Income Tax rate is:

- 20% - income up to EUR 20 004 per year;
- 23% - for income exceeding EUR 20 004 but not exceeding EUR 62 800 per year;
- 31.4% - for income exceeding EUR 62 800 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 EUR 62 800 per year. SCC from incomes above EUR 62 800 EUR per year is not paid.

*8.1.4. Tax credits*

There are no tax credits in Latvia.

*8.2. Solidarity tax (Solidaritātes nodoklis)*

Variable names: `[soltax_ee_p; soltax_ee_s]`

From 1 January 2016 a new tax has been introduced – solidarity tax. The tax is paid for the income exceeding the maximum amount of the social security contributions object. In 2019 Solidarity tax is paid for the income exceeding EUR 62 800 per year. Since 2019, the Solidarity tax rate is lower than the social security contribution rate: 25.5% (in 2018 it was 35.09%). The distribution of the tax is:

#### Solidarity tax rate distribution

	2016 - 2017	2018	2019
Solidarity tax rate	34.09%	35.09%	25.50%
Employer's pays:	23.59%	24.09%	14.50%
State budget (not tied to social services)	23.59%		
Funded pension (2nd pillar pension scheme)*		6.00%	
Private pension in the Fund's Pension Plan (3rd pillar State Pension)		4.00%	
Pension insurance (personalized payment)		13.59%	14.00%
Health care		0.50%	0.50%
Employee's pays:	10.50%	11.00%	11.00%
State budget (not tied to social services)	10.50%		
Personal income tax**		10.50%	10.50%
Health care		0.50%	0.50%

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

\*\* The Solidarity tax (paid by employee for incomes above EUR 62,800 per year in 2019) part of 10.5% is transformed into a Personal income tax rate of 31.4%. It means that, by the submitting the annual income statement and performing the conversion of the PIT into three PIT rates (the third rate of 31.4%), the share of paid Solidarity Tax is equal to PIT rate 31.4%.

During the year the solidarity tax rate is applied at 35.09% (social security contributions rate). The repayment of overpaid tax is made to the employer during the next tax year. In the model, the final tax is simulated.

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).

## 9. Selected output from the OECD tax-benefit model (TaxBEN)

This section shows selected output of the TaxBEN model for Latvia 2019 (Figure 1). TaxBEN by default produces the following output: net household incomes (**black line**) and its subcomponents (**coloured stacked areas**) for selected family and individual circumstances.

The model and the related web calculator is accessible from the [project website](#). Figure 1 shows outputs for four scenarios:

- By percentage of the average wage (**Panel A**);
- By working hours (**Panel B**);
- By duration of a new job (in months) for a person claiming social assistance who started a new employment (**Panel C**);

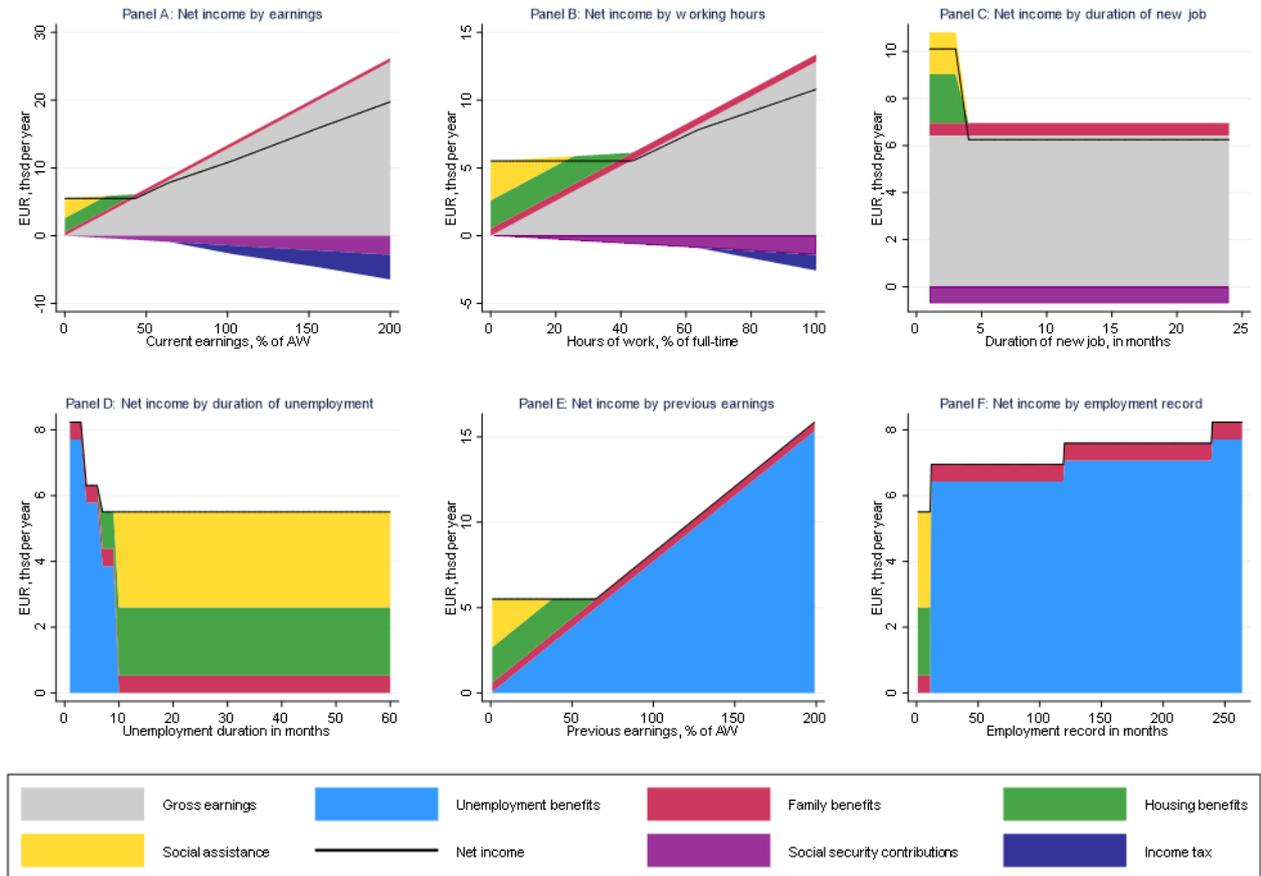
- 
- By unemployment duration (in months) for a jobseeker claiming unemployment benefits (**Panel D**);
  - By previous gross earnings levels for a jobseeker claiming unemployment benefits (**Panel E**);
  - By previous employment record, for a jobseeker claiming unemployment benefits (**Panel F**).

The stacked areas shows the following household income components: **GROSS** = gross earnings; **SSC** = social security contributions; **IT** = income tax; **FB** = family benefits; **HB** = housing benefits; **SA** = social assistance; **IW** = in-work benefits. Note that each component may contain more than one benefit or tax.

Results in Figure 1 refer to a two-adult family with two children. Adults are both 40 years old whereas children are 4 and 6 years old respectively. Social assistance and housing benefit supplements are assumed to be available in all the six scenarios provided that the necessary income and eligibility requirements are met. Where receipt of social assistance or other benefits is subject to activity tests (such as active job-search or being available for work), these requirements are assumed to be met.

**Figure 1. Selected output from the OECD tax-benefit model**

Two-adult couple with two children.



*Notes:* In Panel A, B, and C the first adult is employed, whereas the second adult is out of work and not eligible for unemployment benefits, e.g. because they have expired (the same is assumed for the first adult when earnings are zero). In Panel A, the first adult works full-time at different wage levels. In Panel B, the first adult earns average (hourly) wage at variable working hours. In Panel C, the first adult has just started a new full-time employment at 50% of the average wage after claiming social assistance. In Panels D, E, and F the first adult is out of work and claiming unemployment benefits, whereas the second adult is out of work and not eligible for unemployment benefits. In Panel D and F, previous earnings of the first adult equal to the average wage. In Panels D and E, the first adult is assumed to have a 'long' employment record of 264 consecutive months before the job loss. Panels E and F refer to the 2nd month of unemployment benefit receipt.

*Source:* Calculations based on the OECD tax-benefit model.

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

### *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 EUR 106.72 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 EUR 421.17 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 EUR 213.43 per month. The state also covers social insurance contribution payments on behalf of persons receiving disabled child care benefit amounting to 20% from EUR 71.14.

From 1 July 2019 it is planned to increase the disabled care benefit from EUR 213.43 per month to EUR 313.43 per month for children with particularly severe disabilities and persons with I disability group due to illness from childhood.

### ***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.

The claims listed above and the related compulsory state social insurance contributions and personal income tax payments shall be calculated taking into account the amount of the minimum monthly wage specified on the day when insolvency case of the employer occurred, applying a coefficient of 1.5.

In 2019, the monthly value of duty is EUR 0.36 per payroll employee.

### ***Immovable Property Tax (Nekustamā īpašuma nodoklis)***

The immovable property tax rate for residential houses shall be:

- 0.2% of the cadastral value, that does not exceed EUR 56 915;
- 0.4% of the cadastral share, that exceeds EUR 56 915, but does not exceed EUR 106 715;

- 0.6% of the cadastral share, that exceeds EUR 106 715.

The immovable property tax shall be reduced by 50%, but not more than by EUR 500, if the person (himself or herself, or together with the spouse) or his or her spouse has three or more children under 18 years of age (also children under guardianship or children placed in a foster family) or children under 24 years of age acquiring secondary, professional or higher education as on 1 January of the taxation year and if his or her spouse has the declared place of residence in the object together with at least three of the abovementioned children.