

THE OECD TAX-BENEFIT DATABASE

Description of policy rules for
Latvia 2022



THE OECD TAX-BENEFIT DATABASE FOR LATVIA

Description of policy rules for 2022

OECD contact: Olga Rastrigina, Jobs and Income Division, Directorate for Employment, Labour and Social Affairs. Email: Tax-Benefit.Models@oecd.org

National team: Leading / reference person: Lija Luste, Central Statistical Bureau of Latvia, e-mail: Lija.Luste@csp.gov.lv

Contributors:

Ministry of Welfare, contact e-mail: lm@lm.gov.lv; Gundars Ignats, e-mail: Gundars.Ignats@lm.gov.lv

Ministry of Finance, contact e-mail: info@fm.gov.lv, experts: Līga Gudēvica-Liepiņa, e-mail: liga.gudevica-liepina@fm.gov.lv

Ministry of Environmental Protection and Regional Development contact e-mail: pasts@varam.gov.lv, expert: Jānis Ilgavižs Janis.Ilgavizs@varam.gov.lv

Ministry of Economics, e-mail: pasts@em.gov.lv, expert: Ilze Baltābola ilze.baltabola@em.gov.lv

This version: October 2022

This work is published on the responsibility of the Director of the OECD Directorate for Employment, Labour and Social Affairs. The opinions expressed and arguments employed herein do not necessarily reflect the official views of the Organisation or of the governments of its member countries.

This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

You can copy, download or print OECD content for your own use, and you can include excerpts from OECD publications, databases and multimedia products in your own documents, presentations, blogs, websites and teaching materials, provided that suitable acknowledgment of the source and copyright owner is given. All requests for public or commercial use and translation rights should be submitted to rights@oecd.org. Requests for permission to photocopy portions of this material for public or commercial use shall be addressed directly to the Copyright Clearance Center (CCC) at info@copyright.com or the Centre français d'exploitation du droit de copie (CFC) at contact@cfcopies.com.

Table of contents

Preface	5
The OECD tax-benefit model for Latvia: Policy rules in 2022	6
1. Reference wages and other reference amounts	6
2. Unemployment benefits	6
2.1. Unemployment benefit (Bezdarbnieka pabalsts)	6
2.2. Unemployment assistance	10
3. Social assistance and housing benefits	11
3.1. Guaranteed minimum income benefit (Garantētā minimālā ienākuma pabalsts)	11
3.2. Housing benefit (Mājokļa pabalsts)	16
4. Family benefits	21
4.1. Family state benefit (Ģimenes valsts pabalsts)	21
4.2. Maintenance Guarantee Fund (Uzturlīdzekļu garantiju fonds)	22
4.3. Childcare benefit (Bērna kopšanas pabalsts)	22
5. Net costs of Early Childhood Education and Care	25
5.1. Gross childcare fees	25
5.2. Fee discounts and free provision	26
5.3. Child-care benefits for formal centre-based care	26
5.4. Child care allowance for children not using child care centers	27
5.5. Tax concessions for childcare expenditures	27
6. In-work benefits	28
7. Social security contributions and payroll taxes	29
7.1. Social security contributions (Sociālās apdrošināšanas obligātās iemaksas)	29
7.2. Entrepreneurship risk state duty (Uzņēmējdarbības riska valsts nodeva)	29
8. Taxes	32
8.1. Personal income tax (Iedzīvotāju ienākuma nodoklis)	32
8.2. Solidarity tax (Solidaritātes nodoklis)	34
9. Sickness benefits	37
9.1. Sickness benefit (Slimības pabalsts)	37
9.2. Sick pay (Slimības nauda)	38
10. Short-time work schemes	40
10.1. Allowance for Idle Time (Dīkstāves pabalsts)	40
10.2. Assistance Allowance for Idle Time (Dīkstāves palīdzības pabalsts)	43
11. Selected output from the OECD tax-benefit model (TaxBEN)	45
Annex: Other benefits and direct taxes	47
State Social Security Benefit (Valsts sociālā nodrošinājuma pabalsts)	47
Benefit in a crisis situation (Pašvaldības pabalsts krīzes situācijā)	48
Other social assistance benefits (Citi pašvaldību sociālās palīdzības pabalsti)	48
Supplement to family state benefit for disabled child (Piemaksa pie ģimenes valsts pabalsta par bērnu ar invaliditāti)	48
Child birth benefit (Bērna piedzimšanas pabalsts)	48
Disabled child care benefit (Bērna ar invaliditāti kopšanas pabalsts)	48

Preface

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

The **main body** of the report describes the rules that are relevant for the family and labour market characteristics that are within the scope of the **TaxBEN** model (see below for the methodology and user guide). The **annex** provides information on other cash benefits and taxes on employment income that are relevant for other groups of the working-age population, but are outside the scope of the **TaxBEN** model.

TaxBEN is essentially a large cross-country calculator of tax liabilities and benefit entitlements for a broad set of *hypothetical* families (“vignettes”), e.g. a married couple of 40-years-old adults with two children aged 4 and 6 (click [here](#) for a quick overview of the **TaxBEN** model). **TaxBEN** incorporates rules on the main taxes on employment income, social contributions paid by employees and employers, as well as the main cash and near-cash benefit programmes, including unemployment benefits, family and childcare benefits, guaranteed minimum-income benefits, cash housing benefits, and employment-conditional benefits. Disability benefits, maternity and parental leaves benefits are included in the model for a sub-set of countries and years. The main policy instruments that are currently not included in the **TaxBEN** model are taxes on wealth (e.g. taxes on immovable and unmovable properties), indirect taxes (e.g. VAT), early-retirement benefits, short-time work compensation schemes, sickness benefits, and in-kind benefits (e.g. subsidised transport and free health care).

Useful online resources for the OECD tax-benefit model (TaxBEN)



[TaxBEN web calculator](#)



[Methodology and user guide](#)



[OECD tax-benefit data portal](#)



[Network of national experts](#)

Guidelines for updating this report (for national experts)



[General guidelines](#)

Detailed [guidelines for updating Section 5](#) “Net costs for Early Childhood Education and Care”

Reading notes and further details on the content of this report

- **Reference date** for the policy rules described in this report: **1 January 2022**.
- The symbol  in the text provides a link to the 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.
- **TaxBEN** variables are indicated in the text using the format **[variable name]**.
- COVID-related measures are provided in **blue font**.
- Sickness benefits and Short-time work schemes described in Sections 9 and 10 are not included in the model.

The OECD tax-benefit model for Latvia: Policy rules in 2022

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](#))¹. If Secretariat estimates are not available yet, the model uses wage projections obtained by applying forecasted wage growth² to the latest available wage estimate.

The minimum wage **[MIN]** in 2022 is EUR 500 per month. The annual minimum wage is computed by multiplying the minimum monthly wage (as of 1 January 2022) by 12, i.e. EUR 500 * 12 = EUR 6 000.

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.³ The benefit claimant is:

¹ 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](#).

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

³ Details on behavioural requirements and sanction provisions for unemployment benefits are reported in regularly updated companion reports, see [How demanding are activation requirements for jobseekers? - OECD](#).

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;⁴
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. Since 1 January 2020, the benefit amount decreases after every two months (previously after every three months). The following share of the full benefit is paid depending on duration of the unemployment:

- first 2 months of unemployment: 100% of the full benefit,
- for the 3 and 4 months of unemployment: 75% of the full benefit,
- for the 5 and 6 months of unemployment: 50% of the full benefit;
- for the 7 and 8 months of unemployment: 45% of the full benefit.

2.1.3. *Benefit duration*

Since 1 January 2020, the maximum unemployment benefit payment period is 8 months (previously 9 months).

⁴ 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.

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.

2.1.5. *Tax treatment*

The benefit is not taxable.

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

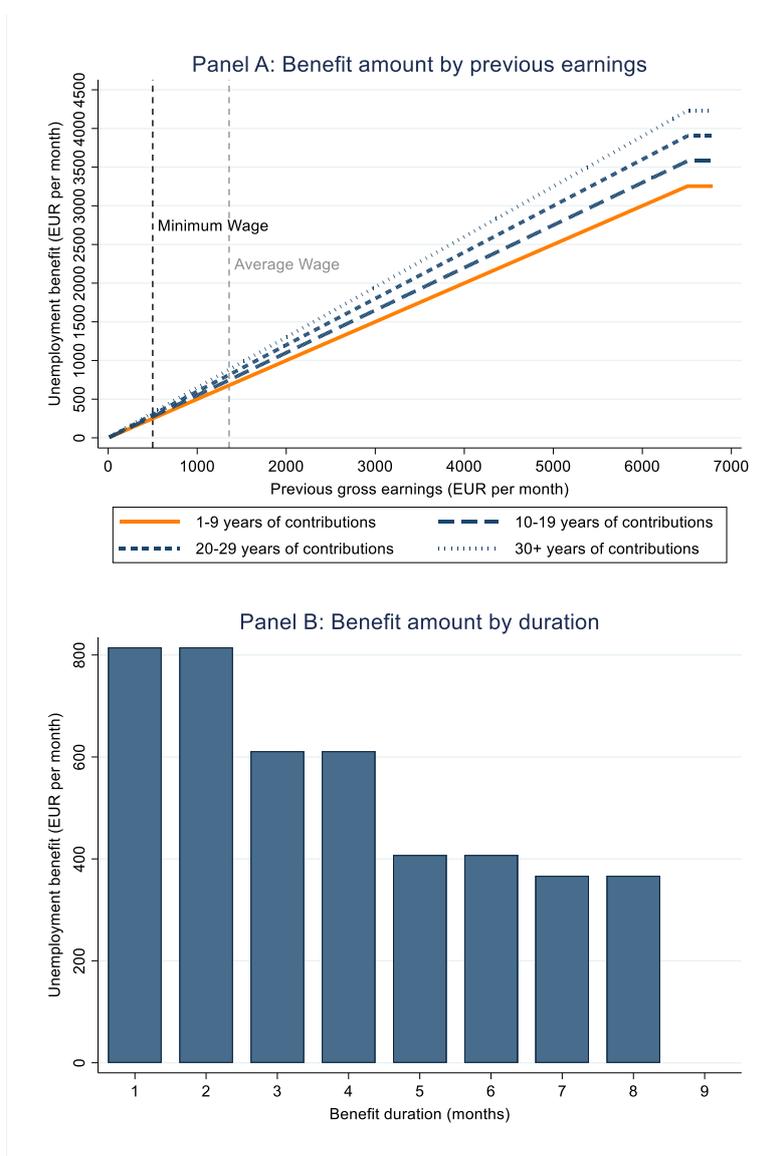
One cannot receive the parental benefit and unemployment benefit at the same time. Payment of the parental benefit is suspended for the duration of the unemployment benefit. Payment of the unemployment benefit is suspended for the duration of the sickness benefit.

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 twice in a 12-month period for a time period of up to 60 days in total. The benefit is terminated in case of a longer employment duration.

Figure 1. Unemployment benefit

50-year old single person without children



Note: Benefit rules do not depend on family structure. A person is assumed to have at least 12 months of previous employment record. Panel A shows benefit amount in the 2nd month of benefit receipt. Panel B shows benefit amount for a person with previous earnings at the average wage and employment record of 22 years.
Source: OECD Tax-Benefit Model.

2.2. Unemployment assistance

OECD note: In many OECD countries, jobseekers who do not qualify for Unemployment Insurance (UI – Section 2.1), or whose entitlement to UI is low or has expired, can claim Unemployment Assistance (UA – this section) and/or Social Assistance benefits (SA – Section 3). These UA and SA benefits have different purposes (and reach different target groups). For instance, while the main purpose of UA is to encourage the labour market reintegration of jobseekers who have exhausted or are not eligible to the standard UI benefit, the purpose of SA programmes is to provide an acceptable standard of living for families unable to earn sufficient incomes from other sources. Conditions for UA typically include requirements to register with the public employment service and participate in active job search in a similar way as for UI. This is not always the case for SA benefits, for which low income is the key entitlement criterion and activation requirements exist only for those who are capable of work.

Latvia does not provide a national/local Unemployment Assistance programme. However, Latvia provides Social Assistance programme that also covers persons in need of assistance due to unemployment (as described in Section 3.1.).

3. Social assistance and housing benefits

This Section describes two social assistance benefits that fall within the scope of the OECD tax-benefit model: Guaranteed minimum income benefit (Section 3.1.) and Housing benefit (Section 3.2. The Law on Social Services and Social Assistance establishes principles for the provision and receipt of these benefits and defines minimum income thresholds for these and other provisions (see Section 33 of the Law).⁵

Since 1 January 2021, the income thresholds are:

- (1) The **guaranteed minimum income** (GMI) threshold is EUR 109 for the first or only person in a household and EUR 76 for other persons in the household.
- (2) The income threshold of a **needy household** is EUR 272 for the first or only person in a household and EUR 190 for other persons in the household.
- (3) Each local government is entitled to determine the income threshold of a **low-income household** not higher than EUR 436 for the first or only person in a household and EUR 305 for other persons in the household, but not lower than the income threshold of a needy household laid down in the previous paragraph.

Riga municipality defines thresholds of a low-income household in line with the maximum amounts suggested above.⁶

The Regulations of the Cabinet of Ministers “Regarding the Assessment of the Material Situation of a Household and Receipt of Social Assistance” specify the procedures for the assessment of the material situation of a household and receipt of social assistance; the procedures for calculating, granting and disbursing the guaranteed minimum income benefit and the housing allowance; and the procedures for determining the status of a needy and low-income household.⁷

3.1. Guaranteed minimum income benefit (*Garantētā minimālā ienākuma pabalsts*)

Variable name: **[SA]**

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

Since 1 January 2021, GMI level is set at the national level and is the same for all municipalities. Municipalities cannot set higher levels of GMI. However, they can set up other types of support for specific groups of clients.

⁵ The Law on Social Services and Social Assistance: <https://likumi.lv/ta/id/68488-socialo-pakalpojumu-un-socialas-palidzibas-likums>

⁶ Binding regulations of the Riga City Council “On recognition of the household as poor or low-income and social assistance benefits in the Riga City Municipality”: <https://likumi.lv/ta/id/324308-par-majsaimniecibas-atzisanu-par-trucigu-vai-maznodrosinatu-un-socialas-palidzibas-pabalstiem-rigas-pilsetas-pasvaldiba>

⁷ Regulations of the Cabinet of Ministers “Regarding the Assessment of the Material Situation of a Household and Receipt of Social Assistance”: <https://likumi.lv/ta/id/319717-noteikumi-par-majsaimniecibas-materialas-situacijas-izvertesanu-un-socialas-palidzibas-sanemsanu>

3.1.1. *Eligibility conditions*

The benefit is granted to a household or a separately living person whose income does not reach the amount of the nationally defined GMI and who does not own any funds or property beyond the limits defined in the law. GMI benefit is paid on the basis of net income and assets test.

Since 1 January 2021, a person/family no longer needs to correspond to the “needy household” status to be eligible to GMI, but taking into a consideration that the GMI level is lower than the “needy household” income level, all receivers of GMI benefit have also rights to receive “needy household” status.

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 (see GMI amounts in the beginning of Section 3.).

The benefit is calculated according the formula:

$$P = \text{GMI}^1 + \text{GMI}^2 \times n - I,$$

Where P - Guaranteed minimum income benefit;

GMI^1 - Guaranteed Minimum Income level for the first member of the household or separately living person set by the Cabinet of Ministers;

GMI^2 - Guaranteed Minimum Income level for the second member of the household set by the Cabinet of Ministers;

n – Number of additional household members (excluding the first one);

I - Net income of the household.

In cases of refusing to fulfil duties of participation, a total amount of GMI benefit reduces by the part of the 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 of 3 or 6 month. If the conditions persist, the beneficiary can apply repeatedly. The benefits is paid once per month.

If during the period when household has obtained GMI benefit 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 GMI benefit granting shall be taken by the social service office within one month.

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 a household is taken into account. Since 1 January 2021, the law determines which income sources and which properties are not taken into account during the assessment of the material situation of the household for receiving social assistance.

The principal amount of the loan granted for the purchase of the only dwelling and interest payments, as well as part of the income from the alienation of the property used for the purchase of the only dwelling are not considered as income.

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. Since 1 April 2021, the social service office shall also exclude the amount of money, which is *received* by the person as maintenance for a child from the other parent or from the Maintenance Guarantee Fund.⁸ 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.

Since 1 April 2021, the following benefits are not considered as income:

- principal amount and interest payment of the loan granted for the purchase of the only home;
- the part of the income obtained from the expropriation of one's property, which is used for the purchase of the only home;
- the amount that a person pays or receives as maintenance for a child and which does not exceed the minimum amount of maintenance for each child established in the state (see Section 4.2.), except in the case, when it is paid on the basis of a court decision;
- family state allowance (see Section 4.1.) and supplements to this allowance;
- allowance for caring for a disabled child, allowance for a disabled person who needs care;
- allowance for the use of an assistant;
- allowance for compensating transport expenses for a disabled person who has difficult movement;
- benefits for a child with celiac disease;
- benefits in the event of the birth of a child and the death of a person;
- social guarantees for orphans and children left without parental care after the end of out-of-home care;
- student loans, scholarships for persons studying, up to the minimum monthly salary;
- income of a child under the age of 18 from paid work or self-employment up to the amount of the minimum monthly salary;
- financial support provided to a person for participation in active employment measures, excluding activities with the conclusion of employment contracts;
- paid temporary public works;
- grant for the monthly income of an unemployed person for starting commercial activities and self-employment;
- compensation for additional expenses in connection with an accident at work or occupational disease;
- compensation for a victim in criminal proceedings;
- compensation for donating blood or blood components;
- refund of overpaid personal income tax;

⁸ In 2021, this rule is not included in the model because the policy reference date is 1 January 2021. In 2022, this rule is simulated.

- funds obtained from charitable funds and material benefits obtained as a result of social campaigns for a specific purpose;
- the one-time financial support for a refugee or a person who has obtained an alternative status;
- other previously disbursed municipal social assistance benefits and municipal voluntary initiative benefits specified in Law of Social Services and Social Assistance.

Since 1 January 2021, the law 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
- real estate or a part of it belonging to a person living in the applicant's household where have declared their place of residence and live first-degree adult relatives of the applicant who do not own other real estate
- 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) or two vehicles for families with children
- shares which cannot be disposed of due to pending insolvency proceedings, accumulated savings up to EUR 272 per household.

The model assumes that the assets are sufficiently low and the asset test is satisfied.

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.

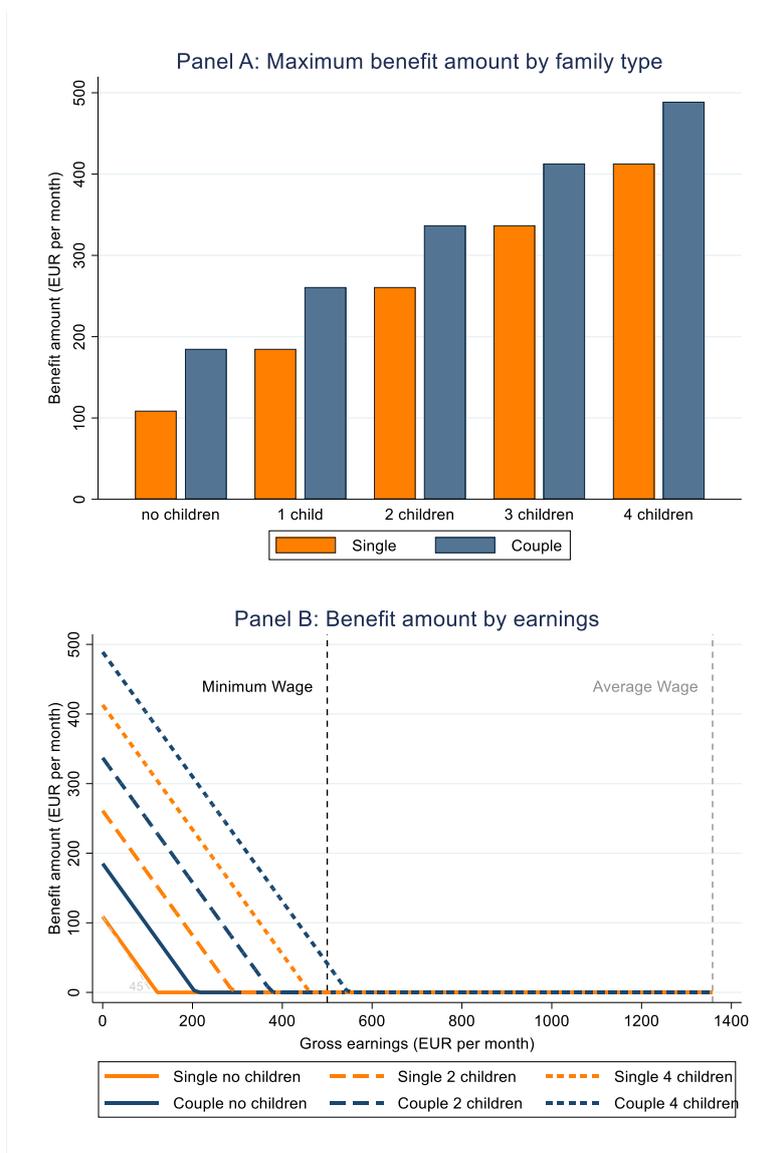
3.1.7. *Combining benefit receipt and employment/starting a new job*

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.

Figure 2. Guaranteed minimum income benefit

40-year old single person and couple with or without children



Note: The results assume no receipt of unemployment benefits as well as other benefits, which are usually included in the means test for GMI benefit. Panel A shows maximum benefit amount for a jobless family with no income. Panel B shows the reduction in benefit amount if one adult starts working. Horizontal axis shows gross earnings. The 45° line shows how the benefit of a single person would have been withdrawn if it would be reduced by 1 EUR for every gross EUR earned. The actual withdrawal rate is slower because the means test is based on net income. The benefit decreases by 1 EUR for every net EUR earned.

Source: OECD Tax-Benefit Model.

3.2. *Housing benefit (Mājokļa pabalsts)*

Variable name: **[HB]**

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

Until 30 June 2021, the eligibility rules, amounts and payment procedures for housing benefit (*Dzīvokļa pabalsts*) varied by municipality. For policy years up to 2021 (including), the OECD tax-benefit model simulated housing benefit rules for Riga municipality.⁹

Since 1 July 2021, national regulations⁷ set basic principles for calculation and granting of housing benefit (renamed “*Mājokļa pabalsts*”), which are similar to the previous Riga municipality model. The new regulations set the formula for calculating the housing benefit amount, income testing procedure and minimum norms of housing expenditure. However, municipalities still can set additional eligibility rules, more favourable maximum amounts and payment procedures. Since policy year 2022, the OECD tax-benefit model simulates the new national rules as well as additional rules stipulated by Riga municipality.⁶

3.2.1. *Eligibility conditions*

According to the national rules, the rights to housing benefits are granted to households or separately living persons being unable to meet basic needs. To be eligible, the sum of the GMI thresholds for the household (see Section 3.1.) and the actual housing expenses (not exceeding the national and municipality regulations) should be below the total income of the household.

Municipalities can set additional eligibility criteria for housing benefit. In Riga municipality, a person/family has to submit documents for assessment of their material situation. This procedure determines both eligibility to social benefits as well as the status of a needy and low-income household. However, the “low-income household” status itself is no longer required to be eligible to the housing allowance.

3.2.2. *Benefit amount*

From 1 July 2021, the Law on Social Services and Social Assistance⁵ (hereinafter - the Law), Section 35, Paragraph three of the Law provides that the amount of housing benefit shall be calculated taking into account the following expenses:

- 1) for the use of living space (rent, expenses for mandatory management activities);
- 2) for services related to the use of the living space (heat energy for the provision of heating and hot water, electricity, water, natural gas, provision of sewerage, management of municipal waste), if they are not included in the rent or necessary expenses for mandatory management activities;
- 3) expenses related to telecommunications services and the internet, as well as expenses regarding the installation and verification of water meters.

In its turn, Section 35, Paragraph four of the Law stipulates that the amount of housing benefit is calculated as the difference between the sum of the GMI thresholds for a

⁹ Riga City Council Binding Regulations “On recognition of a family or a person living separately as needy or low-income and social benefits in Riga City Municipality” <https://likumi.lv/ta/id/254202-par-gimenes-vai-atseviski-dzivojosas-personas-atzisanu-par-trucigu-vai-maznodrosinatu-un-socialajiem-pabalstiem-rigas-pilsetas-...>

household and the expenditure on housing and total household income specified in regulatory enactments.

The national regulations⁷ specify the formula to be used for calculating the housing benefit:

$$P = (GMI^1 + GMI^2 \times N) + K - I \text{ where}$$

P - the amount of the allowance;

$(GMI^1 + GMI^2 \times N)$ - the sum of the thresholds of the guaranteed minimum income for the household;

K - the amount of actual expenditures indicated in bill payments related to the use of the housing (not exceeding the expenditures for the use of the housing laid down the national or local government regulations);

I - total income of the household (including the amount of the guaranteed minimum income benefit received in the relevant month).

The model assumes that a family rents accommodation in the private rental market. The model considers only housing expenditure on rent.¹⁰

The national regulations provide the following minimum norms of expenditure items for calculating the housing allowance for rent:

- The area of the housing taken into consideration for the payment of the expenses of renting the residential premises, managing and heating of the residential house is:
 - 32 m² for one person in the household and 18 m² for each additional person in the household;
 - in certain cases the entire area of the housing can be considered (such cases are not covered in the model):
- Rent and management of residential premises in accordance with the conditions of the concluded tenancy agreement or the monthly amount indicated in the utility bill, but not more than 5 euros per 1 m², unless the local government council has determined a different amount.

The regulations of Riga City Council define higher normative expenses on rent (*these amounts are assumed in the model*):⁶

- The benefit covers the rent as specified in the lease agreement, but not more than:
 - EUR 8 per m² per month for a dwelling with a total area of up to 32 m²
 - EUR 7 per m² per month for a dwelling with a total area over 32 m² and up to 45 m²
 - EUR 5 per m² per month for a dwelling with a total area over 45 m²

¹⁰ In the standard OECD tax-benefit calculations, the rent is assumed to be equal 20% of the Average Wage for all household types.

The model assumes the maximum dwelling size of 70 m² for all family types.

Housing benefit can be paid in cash or in kind.

3.2.3. *Benefit duration*

Benefit is granted for the period of 3 or 6 month. If the conditions persist, the beneficiary can apply repeatedly. The benefits is paid at least once in three months, except for the housing allowance for the purchase of solid fuel which may be disbursed as one or several payments during the calendar 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 (see Section 3.1.4.).

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.

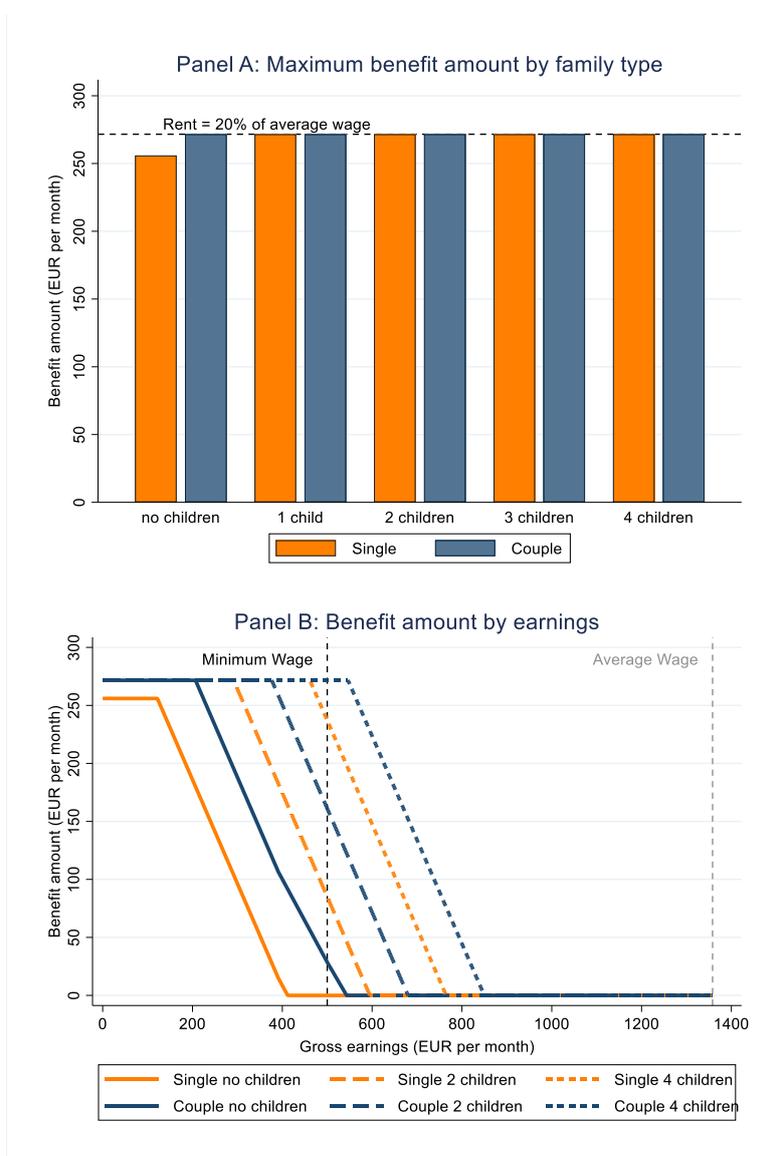
3.2.7. *Combining benefit receipt and employment/starting a new job*

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.

Figure 3. Housing benefit

40-year old single person and couple with or without children

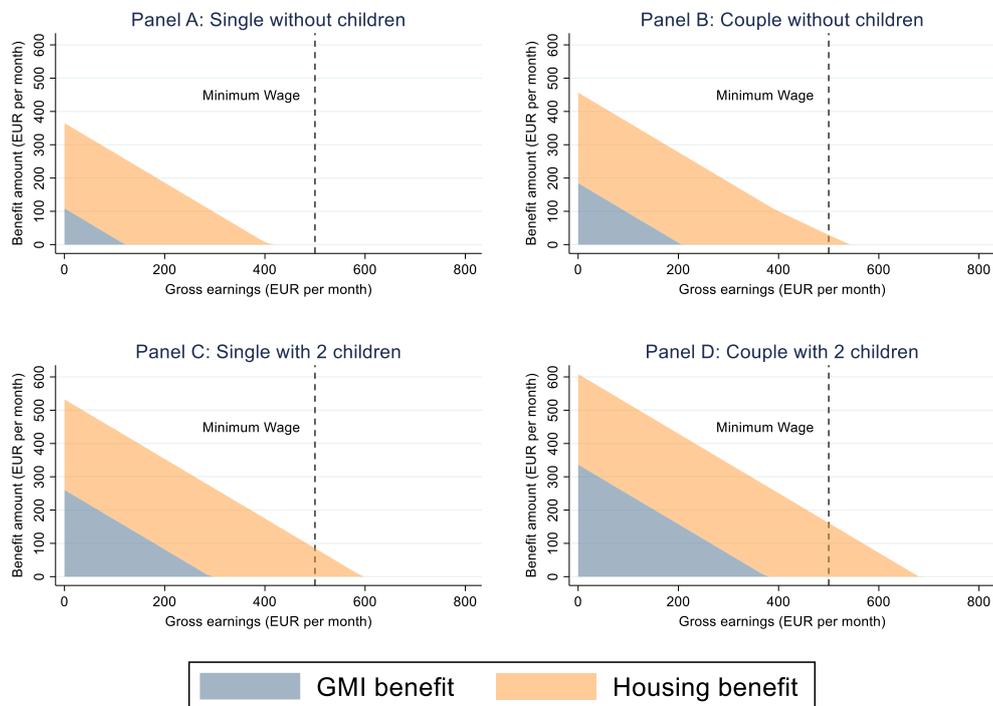


Note: A family resides in Riga. The results assume that the family receives GMI benefit, but no unemployment benefits or other benefits, which are usually included in the means test for GMI and housing benefits. Panel A shows maximum benefit amount for a jobless family with no income. Panel B shows the reduction in benefit amount if one adult starts working. Horizontal axis shows gross earnings, whereas the means test is based on net income. The benefit decreases by 1 EUR for every net EUR earned. The slope of the lines becomes flatter when families start paying income tax.

Source: OECD Tax-Benefit Model.

Figure 4. Guaranteed minimum income and housing benefits

40-year old single person and couple with or without children



Note: A family resides in Riga. The results assume no receipt of unemployment benefits as well as other benefits, which are usually included in the means test for GMI and housing benefits. The figure shows the reduction in benefit amounts if one adult starts working. Horizontal axis shows gross earnings of the first adult. The second adult is assumed to be out of work.

Source: OECD Tax-Benefit Model.

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

Since 1 January 2022, the family state benefit shall be paid for each child raised in the family from the date of reaching the age of one to the age of 16, as well as for a child aged 16 to 20 if he or she is training in a general education or vocational education institution and has not entered into a marriage. The benefit is paid directly to the child after they reach 18 years of age, if prior to that they have been in out-of-family care.

A State family benefit shall be paid to a person who is raising a disabled child from the day when disability has been determined for the child, but not longer than until the day when the child has attained 20 years of age regardless of whether the child attends an educational institution.

4.1.2. Benefit amount

Since 1 January 2022, the amount of the family state benefit depends on the number of children actually raised in the family. One of the spouses, on the basis of the mutual consent of the other spouse, may receive a family state benefit for all children who are jointly reared, not only for their children.

The amount of the family state benefit is:

- for one child - EUR 25;
- for two children – EUR 100 (EUR 50 for each child);
- for three children - EUR 225 (EUR 75 for each child);
- for four or more children – EUR 100 for each child.

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 minimum amount of payment is determined by the Cabinet of Ministers¹¹:

- 25% of the minimum monthly wage (i.e. EUR 125 per month in 2022) for each child aged below 7
- 30% of the minimum monthly wage (i.e. EUR 150 per month in 2022) for each child aged 7-17.

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.

¹¹ <https://likumi.lv/ta/id/254128-noteikumi-par-minimalo-uzturlidzeklu-apmeru-bernam>

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*

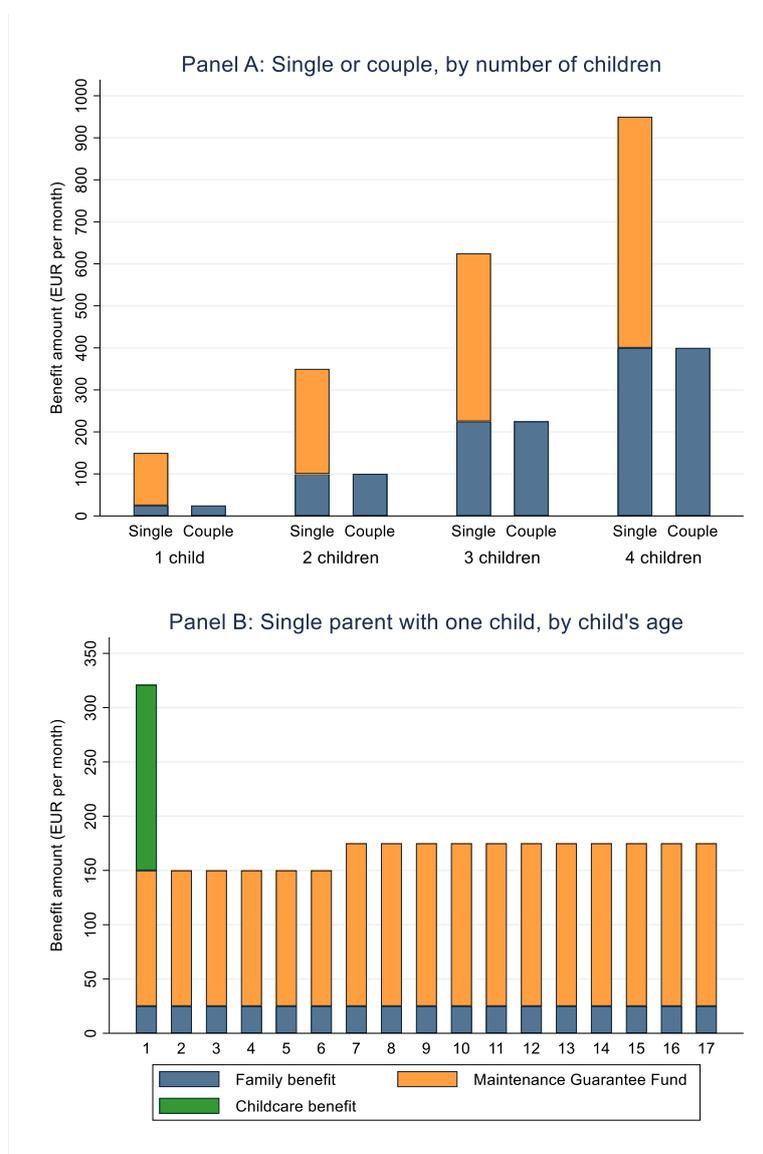
The benefit is universal and can be received together in any other benefit, but is counted as income in the means tests for social assistance and housing benefit. The benefit cannot be received simultaneously with maternity leave benefit.

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

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

Figure 5. Family benefits

40-year old single person or couple with children



Note: Family benefits do not depend on income. All children are assumed to satisfy conditions for being considered a dependent child. In Panel A, children's ages are 4, 6, 8, and 10. In Panel B, child's age varies from 1 to 17 years old. The amount of the benefit corresponds to the month when a person has just turned 1, 2, ... 17 years old.

Source: OECD Tax-Benefit Model.

5. Net costs of Early Childhood Education and Care

The **reference date** for the policy rules described in this section is **1 January 2022**.¹²

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. Children start attending mandatory primary school at the age of 7.

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. In full-time groups, meals are usually provided three times a day (breakfast, lunch and afternoon snacks) at a low cost, usually totalling approximately EUR 2 to 4 per day.

In Riga, the maximum fee for catering services in preschool educational institutions is:¹³

- EUR 1.99 per day in an institution with a 12-hour work schedule (serving breakfast, lunch, and afternoon snacks)
- EUR 2.21 per day in an institution with a 24-hour work schedule serving (breakfast, lunch, afternoon snacks, and dinner).

The model simulates maximum meal fees paid in Riga in a preschool with a 12-hour work schedule.

Preschools may also charge fees 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. *Fees for private services are not considered in the model.*

¹² While this report refers to 1 January 2022, it should be noted that on 1 September 2022 the new decision of the Riga City Council No. 1462 "On student catering" came into force (available [here](#)). It increased the maximum meal fees in municipality preschool institutions to EUR 4 per day for three meals (breakfast, lunch, and afternoon snacks). In September 2022, meal fees will still be fully financed by municipality for all families. From 1 October 2022, full costs will be covered for families with "social status" (including poor and low-income families and families with 3+ children). Families without "social status" will have to co-finance half of the costs, i.e. EUR 2 per day. *These changes will be implemented in the model in policy year 2023.*

¹³ The decision of the Riga City Council No. 4116 "On the fee for catering services in educational institutions of the Riga city municipality" in force from 1 September 2016 to 1 September 2022 (available [here](#)).

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, from 1 January 2017 to 1 September 2019 families with 3 children or more as well as families with poor or low-income status were eligible for free meals (see the beginning of Section 3. for definition of poor and low-income families). From 1 September 2019 and up to 1 October 2022, all families with children in municipality preschools are eligible for free meals.¹⁴

During the Covid-19 emergency limited number of public childcare facilities remained open to look after children of essential service workers and parents who cannot provide childcare by themselves. If public childcare facilities are closed, municipalities continue providing free meals to eligible vulnerable families to support them during the emergency situation.

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 and 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 2020, 22 municipalities according to their budgetary possibilities, have determined the amount of support for children using childcare services.

In 2022, average municipal support for children from 1.5 to 4 years is EUR 276.33 (per child per month), and for children undergoing compulsory pre-school education - EUR 191.07. The average municipal support for child minding (nanny) services is EUR 183.31.

In Riga, the amount of support in 2022 for children from 1.5 to 4 years is EUR 307.85 and for children undergoing compulsory pre-school education - EUR 229.27. Riga support for children who are using child minding (nanny) services is EUR 181.09.

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.

¹⁴ The decision of the Riga City Council "For students whose catering costs are covered by the Riga city municipality" (No. 4640 in force from 1 January 2017 to 1 September 2019 and No. 2321 in force from 1 September 2019 to 1 September 2022, available [here](#)).

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

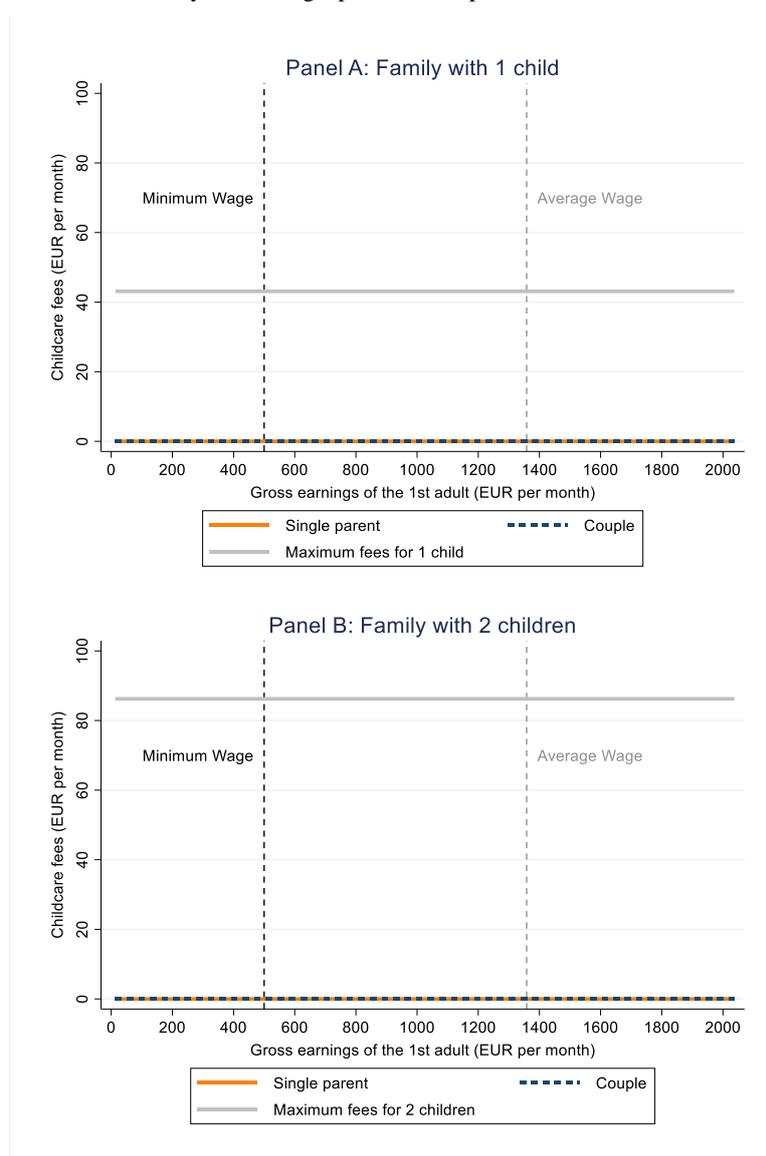
None.

5.5. Tax concessions for childcare expenditures

None.

Figure 6. Childcare fees paid by parents

40-year old single person or couple with children



Note: Both parents are working full time and use public childcare for all children for the full day. Children are 2 and 3 years old. Families live in Riga. Actual fees paid by parents are zero as Riga municipality covers meal costs for all children attending public kindergartens.

Source: OECD Tax-Benefit Model.

6. In-work benefits

OECD note: This section provides information on employment-conditional (“in-work”) benefits for employees, i.e. benefits whose eligibility is conditional on the following key requirements: 1) being regularly employed (in either the private or public sector); 2) working a certain number of hours and/or earning more than a certain minimum. This definition notably excludes ‘workfare’ programmes and related ‘work-first’ policies that make out-of-work benefits conditional on participation in work activities.

This section provides information also on *one-off* and/or *temporary* payments for benefit recipients who are out of work and make a transition into employment. These type of benefits are referred to as *transitional “into-work” benefits* in order to differentiate them from the “regular” in-work benefits that do not have any predefined maximum duration after moving into work.

Based on this definition, Latvia does not have an “in-work” benefit programme. However, earnings disregards provided to recipients of GMI and housing benefits are classified as *into-work benefits* (see Sections 3.1.7. and 3.2.7.).

7. Social security contributions and payroll taxes

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

Variable names: [SOCSEC_general_p; SOCSEC_general_s; SSCR_general_p; SSCR_general_s]

In 2022, the general social security contribution rate is 34.09%: the employer rate is 23.59% and the employee rate is 10.5%. The social security contribution rate covers:

- state pension insurance – 23.91% (from the state pension insurance 14% are used to finance the notional defined-contribution (NDC) or the 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 the 2nd pillar pension scheme. If the person is not a member of a 2nd pillar pension scheme then 20% of the state pension insurance are directed to the 1st pillar pension scheme);
- unemployment insurance – 1.60%;
- occupational accident insurance – 0.66%;
- disability insurance – 2.29%;
- maternity and sickness insurance – 3.47%;
- parental insurance – 1.16%;
- health insurance – 1.00%.

In 2022, the social security contribution ceiling is EUR 78 100 per year (in 2019 – 2021 it was EUR 62 800 per year).

7.2. Entrepreneurship risk state duty (*Uzņēmējdarbības riska valsts nodeva*)

Variable names: [ersd_p; ersd_s]. In the model, the entrepreneurship risk state duty is included in variable [SSCR].¹⁵

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 an enterprise. The duty does not apply to state/local government or other legal persons governed by public law.¹⁶ 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;

¹⁵ This payroll tax is included in the model for all years starting from TaxBEN version 2.3.1 released in October 2021.

¹⁶ The model assumes employees working in the private sector.

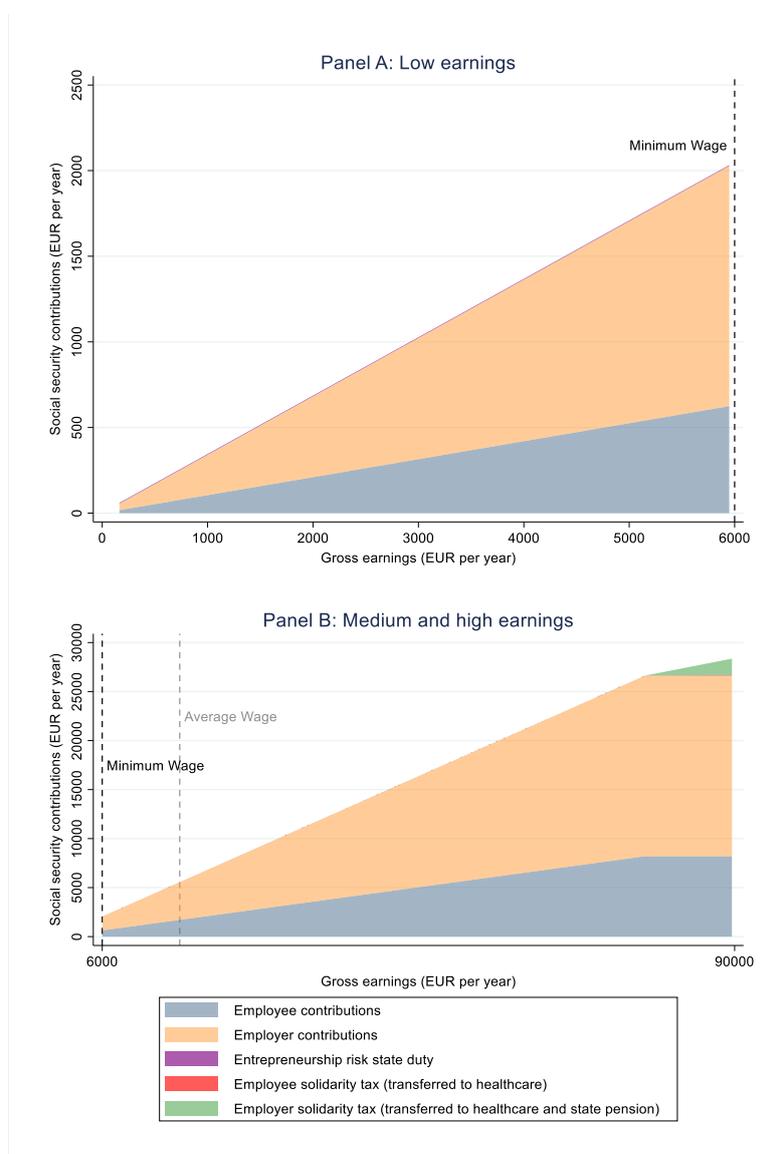
6. reimbursement for damages to be paid for four subsequent years ahead.

The claims listed above and the related compulsory state social insurance security 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 2022, the monthly value of the duty is EUR 0.36 per payroll employee.

Figure 7. Social security contributions

40-year old single person without children



Note: Social security contributions do not depend on family structure. The figure shows social insurance contributions, entrepreneurship risk state duty as well as parts of solidarity tax transferred to healthcare contributions and state pension (see description in Section 8.2.).

Source: OECD Tax-Benefit Model.

8. Taxes

Taxation in Latvia is applied on the individual level. The taxation period is a calendar year.

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

Variable name: **[IT_p; IT_s]**

Personal income tax shall be paid for the natural person incomes. Since 2018, the personal income tax rates are progressive.

8.1.1. Tax allowances

The 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 the taxpayer. Since 2016, the amount of non-taxable minimum gradually increases every year.

In 2022, the maximum non-taxable minimum is:

- from 1 January 2022 till 30 June 2022 - EUR 2 100 per half year (TA_{max1}) (EUR 350 per month);
- from 1 July 2022 till 31 December 2022 - EUR 3 000 per half year (TA_{max2}) (EUR 500 per month);

The maximum non-taxable minimum is applied to persons with the taxable income below EUR 6 000 per year (Y_i) (EUR 500 per month). From 2021, the income threshold, above which the PIT non-taxable minimum is not applicable, is EUR 1 800 per month. If the taxable income is between EUR 6 000 per year (EUR 500 per month) and EUR 21 600 per year (EUR 1 800 per month), the differentiated annual non-taxable minimum is calculated according to formula below:

- From 1 January 2022 till 30 June 2022:

$$DNTM = TA_{max1} - 0.26923 \times (AI_1 - Y_1/12 \times 6)$$

- From 1 July 2022 till 31 December 2022:

$$DNTM = TA_{max2} - 0.38462 \times (AI_2 - Y_1/12 \times 6)$$

AI_1 - taxpayer's total amount of annual taxable income from 1 January 2022 till 30 June 2022

AI_2 – taxpayer's total amount of annual taxable income from 1 July 2022 till 31 December 2022

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

The model simulates non-taxable minimum as on 1 January 2022. Changes introduced on 1 July 2022 will be included in the model for policy year 2023.

Tax allowance on dependants:

In 2022, tax allowance for each dependant is EUR 3 000 per year (EUR 250 per month).

The taxpayer can apply the relief for a child below 18 years of age and for a child below 24 years of age if he or she continues the acquisition of a general, professional, higher or

special education. The allowance for dependants relates to a taxpayer's child and in certain cases - sisters, brothers, grandchildren, as well as guardianship or dependent persons. The taxpayer can also apply the relief for unemployed spouse who is taking care of:

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

Other allowances (Eligible Expenditure):

Prior to imposing tax on income, the following expenditure of the payer shall be deducted from the amount of annual taxable income:

- Social security contributions;
- Solidarity tax.

Other allowances (Eligible Expenditure) (*not covered by the model*):

- expenditure for further training, acquisition of a speciality, acquisition of an education, including acquisition of interest-related education programmes for children, for the use of health and medical treatment services and payments of health insurance premiums to insurance companies;
- contributions made to private pension funds;
- payments of insurance premiums made in conformity with a life insurance to an insurance company;
- expenditure of the authors and performers of works of science, literature and art, inventions and industrial models which is related to the creation, publication, performance or other use and for which the authors and performers receive author's fees (royalty);
- amount which in the form of donation or gift has been transferred to a budget institution or association, foundation and religious organisation or the institution thereof registered in the Republic of Latvia;
- amount which, in accordance with the Law on Financing of Political Organizations (Parties), in the form of a donation or gift has been transferred to a political party or association of political parties thereof registered in the Republic of Latvia.

8.1.2. *Tax base*

All benefits considered in the model (except sickness benefit) are not taxable. The tax base is calculated as employment income plus sickness benefit 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*

From 2018, the progressive income tax rate has been introduced (in 2017 the PIT was a flat tax rate of 23%).

The Personal income tax rates in 2022 are:

- 20% - for income up to EUR 20 004 per year;
- 23% - for income exceeding EUR 20 004 but not exceeding EUR 78 100 per year (in 2019-2021 not exceeding EUR 62 800);

- 31% - for income exceeding EUR 78 100 per year (in 2019-2021 exceeding EUR 62 800).

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

The 31.0% rate is calculated only in annual tax return, but during the year, the tax is paid as Solidarity tax for income above the Social contribution ceiling - EUR 78 100 (in 2019-2021 EUR 62 800) per year.

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 – the solidarity tax. The tax is paid for the income exceeding the social security contributions ceiling. In 2022, the solidarity tax is paid for the income exceeding EUR 78 100 (in 2019-2021 EUR 62 800) per year. Since 2019, the solidarity tax rate is lower than the social security contribution rate: 25.0% in 2022. In 2022, the distribution of the tax is:

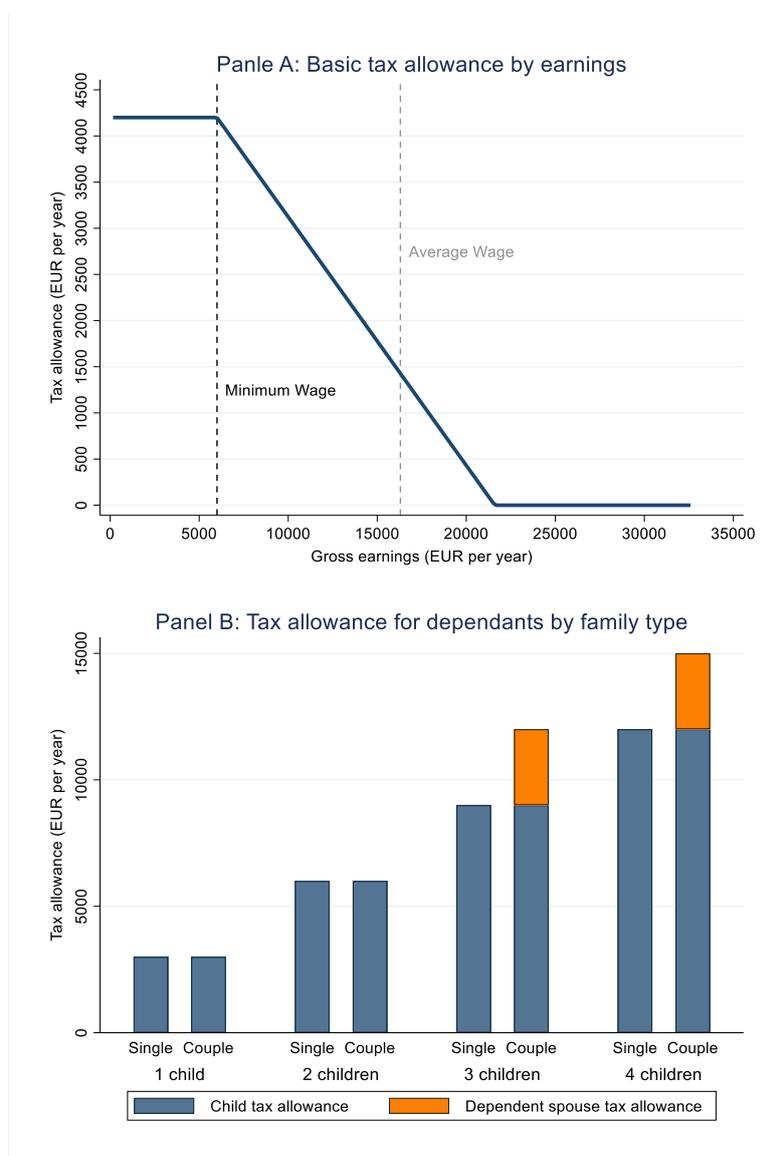
Total solidarity tax rate for incomes exceeding EUR 78 100 per year	25%
<i>From which:</i>	
State pension insurance payment (paid by employer; from 2021 not personalized payment)	14%
Health insurance payment (paid both by employer and employee)	1% (0.5% each)
Solidarity payment (paid by employee as payment of personal income tax third rate)	10%

During the year the solidarity tax rate is applied at 34.09% (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 during the calendar year exceeds the social security contributions ceiling. Employers are also subject to the solidarity tax (in the same way as they are liable for paying employer social security contributions).

Figure 8. Tax allowances

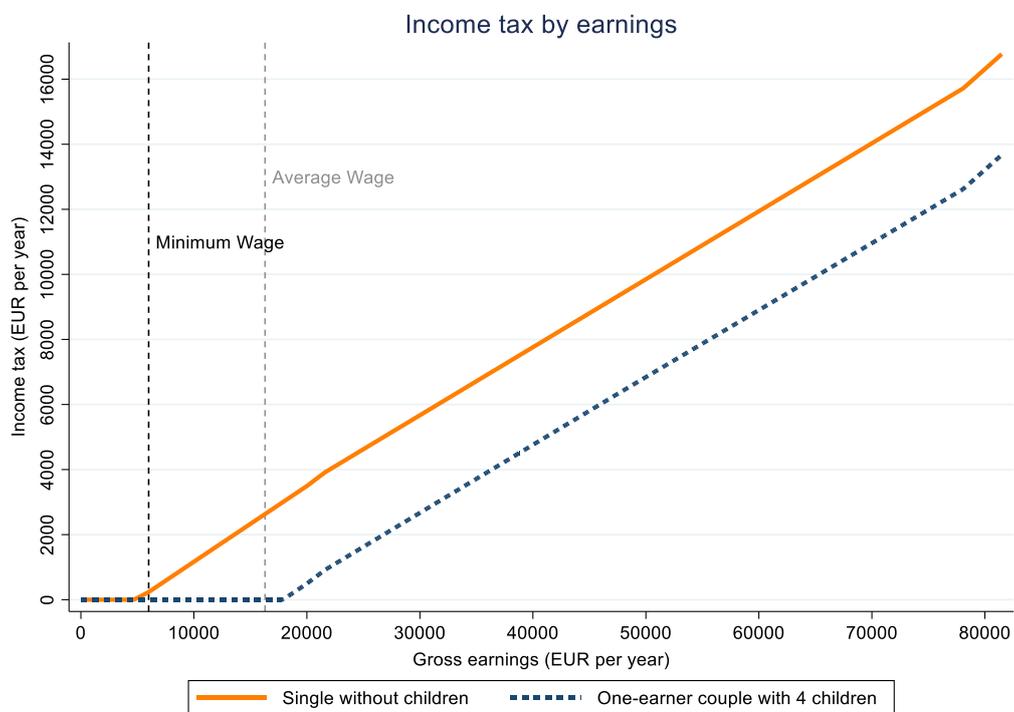
40-year old single or couple with or without children



Note: The figure shows the maximum amounts of tax allowances that a person is eligible to. The actual amounts that a person can use are limited by taxable income (not shown in the figure). In Panel A, basic tax allowance does not depend on family structure, but it decreases with earnings. Basic tax allowance is calculated applying the rules of 1 January 2022. In Panel B, tax allowance for dependants does not depend on earnings, but it depends on the family structure. Children are assumed to be 4, 6, 8, and 10 years old. In a couple, the spouse is not working; thus, a working adult in a couple with 3 or more children is eligible to dependent spouse allowance. *Source:* OECD Tax-Benefit Model.

Figure 9. Income tax

40-year old single or couple with or without children



Note: A person has no other sources of income but earnings from work. Income tax is calculated at the individual level. However, the amount of tax allowances subtracted from the tax base depends on family structure. Two cases are shown as examples: a single person without children and a one-earner couple with four dependent children. Income tax includes the part of the employee solidarity tax that is transferred to the personal income tax. Non-taxable minimum is calculated applying the rules of 1 January 2022.

Source: OECD Tax-Benefit Model.

9. Sickness benefits

9.1. *Sickness benefit (Slimības pabalsts)*

Sickness benefit is a contributory non-means-tested benefit provided by the state to employees and self-employed in case of incapacity for work, isolation required due to quarantine, or in case of a need to care for a sick child.

The rules described in this section refer to employees. Special rules for self-employed, employees of microenterprises, and situation when the benefit is provided to care for a sick child are not covered. The rules in case of incapacity for work and isolation required due to quarantine are the same.

Apart from the state-provided sickness benefit, the employer also has obligations to provide sick pay (*slimības nauda*). This payment is described in Section 9.2.

9.1.1. *Entitlement and eligibility conditions*

Sickness benefit is granted to a person if social insurance contributions for sickness have been made for at least three months in the last six months (or for at least six months in the last 24 months) before the month in which the insured event occurred. The person has to have the status of an employee when the incapacity for work occurs.

9.1.2. *Benefit amounts*

The amount of sickness benefit is 80% of the beneficiary's average insurance contribution salary.

The average insurance contribution salary is calculated based on the insurance contribution salary of a person for a period of 12 calendar months, this period ending two calendar months before the month in which the insured event occurred. The average is computed based on the sum of salaries subject to social insurance contributions during the reference period and the number of months in this period for which contributions were made.

If the insured person has not been registered as a state social insurance contributor during the 12 months reference period, then the average insurance contribution salary shall be set at 40% of the national average monthly insurance contribution salary. The national average monthly insurance contribution salary is determined for a 12-month period one calendar year before the year in which the insured event occurred.

9.1.3. *Benefit duration*

Sickness benefit is granted and paid for the period from the 11th day¹⁷ of incapacity for work until the day of recovery, but no longer than:

- 26 weeks (counting from the first day of incapacity for work) if the incapacity for work is continuous, or
- no longer than 52 weeks during a 3-year period if incapacity for work recurs intermittently.

¹⁷ From April 1 2022 sickness benefit will be granted and paid for the period from the 10th day of incapacity for work

In special cases, based on the opinion of the Medical Examinations Commission, sickness benefit can be paid for a period of *continuous* incapacity for work for maximum 52 weeks (counting from the first day of incapacity for work).

If incapacity for work continues after the loss of employment status, the sickness benefit for continuous incapacity for work shall continue to be paid for 30 calendar days from the day when the person has lost employment status.

From 17 January 2022 to 28 February 2022, the sickness benefit shall be granted from the first day of incapacity for work if a person who has an interoperable vaccination or recovery certificate or who has received the opinion on the need to postpone vaccination against COVID-19 is issued a sick-leave due to contracting COVID-19 or being under quarantine. The amount of the benefit in this case remains the same: 80% of the beneficiary's average insurance contribution salary.

From 17 January 2022 to 28 February 2022, the state pays sickness benefit for the first 3 days of sick leave due to respiratory diseases. If the person is tested positive for COVID-19, the state continues to pay the sickness benefit until recovery.

9.1.4. *Means test*

The benefit is not means-tested.

9.1.5. *Tax treatment*

Sickness benefit is included in the personal income tax base and taxed according to general tax rules. The sickness benefit is not the subject of the mandatory social insurance contributions.

9.1.6. *Interactions with other components of the tax-benefit system*

If a person is simultaneously entitled to both sickness benefit and unemployment benefit, only sickness benefit shall be paid during this period. Sickness benefit is included in means tests for guaranteed minimum income and housing benefit.

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

The benefit is not compatible with earnings from work.

9.2. *Sick pay (Slimības nauda)*

Sick pay is technically not a benefit but income earned from paid employment, which the employer pays from the salary fund to the employee in case of incapacity for work or isolation required due to quarantine ordered by a doctor. Sickness benefit provided by the state is described in Section 9.1.

9.2.1. *Entitlement and eligibility conditions*

The employer has an obligation to provide sick pay to employees who have temporary incapacity for work certified by a sick-leave certificate, except for incapacity for work that is related to pregnancy and childbirth, and caring for a sick child – these cases are covered by the state (*not considered in the model*).

The person has to have the status of an employee when the incapacity for work occurs, but there are no conditions with respect to previous employment contributions or duration of employment.

9.2.2. *Benefit amounts*

There is a one-day waiting period. The amount of sick pay is no less than 75% of the average earnings for the second and third days of temporary incapacity for work and no less than 80% for the period from the 4th to the 10th¹⁸ days of incapacity for work.

The average daily earnings shall be calculated by dividing the total salary of the last six calendar months by the number of days worked during that period. The employer shall calculate the sickness allowance for the days of incapacity (hours) in which the employee would have had to work.¹⁹

9.2.3. *Benefit duration*

Sick pay is provided for the period from the 2nd until the 10th day of incapacity for work.

9.2.4. *Means test*

The benefit is not means-tested.

9.2.5. *Tax treatment*

Sick pay is subject to taxes and social insurance contributions in the same way as earned income from employment.

9.2.6. *Interactions with other components of the tax-benefit system*

Sick pay is included in means tests for guaranteed minimum income and housing benefit.

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

Sick pay is provided to employees during the period of incapacity for work. The benefit is terminated once the employee returns to work.

¹⁸ From April 1 2022 from the 4th to the 9th days of incapacity for work.

¹⁹ The procedure of the calculation of Average Earnings is prescribed by the Labour Law, Section 75 (<https://likumi.lv/ta/en/en/id/26019-labour-law>).

10. Short-time work schemes

This section describes two main allowances introduced as a response to the Covid-19 crisis:

- Allowance for Idle Time (described in Section 10.1.)
- Assistance Allowance for Idle Time (Section 10.2.).

10.1. Allowance for Idle Time (*Dīkstāves pabalsts*)

This allowance was introduced as a response to the Covid-19 crisis. The rules described in this section are based on two regulations.

The **first Covid-19 wave** the rules are defined by the Cabinet Regulation No. 165 (as of 28 March 2020)²⁰. According to it, the idle time grant is an allowance paid if an employer affected by a crisis does not employ an employee or does not perform the actions required to accept the employee's obligations during the downtime due to the spread of Covid-19. Special rules for employees of self-employed are not covered.

In the **second Covid-19 wave** (from 9 November 2020), the idle time allowance, is available for employers, self-employed persons and patent payers, who are not provided with work. The rules of the second Covid-19 wave idle time allowance are based on the Cabinet Regulation No 709 (as of 28 November 2020).²¹

10.1.1. Entitlement and eligibility conditions

Allowance for idle time in the **first** Covid-19 wave is paid to the employees who are not provided with work due to the spread of COVID-19. The period of idle time is fixed from 14 March 2020 until 30 June 2020.

Employers are entitled to apply for the allowance if:

- their income from economic activity decreased by at least 30% in March, April, May or June 2020 in comparison with the average income of the twelve months of 2019 or the average income of those months within the period of 1 January 2019 to 1 March 2020 in which the enterprise was actually operating;
- their income from economic activity has decreased by at least 20% (in the same period as mentioned above) and the employer meets at least one of the following criteria:
 - the volume of the goods and services exported or delivered in 2019 in the territory of the European Union amounts to 10% of the total turnover or is not less than EUR 500 000;
 - the average monthly gross work remuneration in 2019 is not less than EUR 800;
 - long-term investments in fixed assets are at least EUR 500 000 on 31 December 2019.

The employer has to certify that the employee for whom the allowance is requested is not on leave for incapacity for work and will not be dismissed from work within a month after the application for the allowance.

Employers who have tax debt or have not submitted all tax returns for the last 12 months are not eligible. Employees who started work after 1 March 2020 are not eligible.

In the first Covid-19 wave allowance for idle time may be received by:

- employees who received an old-age or service pension at the same time;
- employees who provide assistant services to disabled persons at the same time;
- members of the board of companies, if they are employees at the same time, if all the employees are idle;
- staff engaged in an economic activity at the same time and income from it shall not exceed EUR 430 per month.

In the **second** Covid-19 wave allowance for idle time is paid to the employees who cannot work as a result of COVID-19. The period of idle time is fixed from 9 November 2020 until 30 June 2021, but not longer than the period for which the restrictions on economic activity related to COVID-19 are applicable.

In the second Covid-19 wave, idle time allowance is available for employers, self-employed persons and patent payers whose income from economic activity for the month for which aid is requested, has decreased by:

- at least 20% in comparison to the average income of August, September, and October 2020 during which the enterprise was actually operating;
- at least 30% in comparison of the relevant month of 2019 and income decrease is linked to restrictions on economic activity.

10.1.2. *Benefit amounts*

In the **first** wave (from 14 March 2020 until 30 June 2020), the amount of the allowance is 75% of the average monthly gross work remuneration for the period of last six months before the declaration of the emergency situation (or less if the duration of working activity was less than that). The allowance cannot exceed EUR 700 per month per employee.

The amount of the allowance for an employee of a micro-enterprise is 50% of the average monthly gross salary in the micro-enterprise for the third and fourth quarters of 2019, but not more than in the amount of EUR 700 per calendar month.

The State Revenue Service shall inform the State Social Insurance Agency of those employees to whom the State Revenue Service has denied the allowance for idle time based on any of the criteria specified in this Regulation for an employer. Providing that, in such a case, it is possible to qualify for an assistance allowance for idle time (see Section **Error! Reference source not found.** for more details).

If the employee benefits from a personal income tax relief for a dependent child, the employee receives a supplement of EUR 50 per month for each dependent child (up to 24 years old).

In the **second** Covid-19 wave (from 9 November 2020 to 30 June 2021) the amount of grant is:

- for an employee - 70% of the declared average monthly gross earnings for the period from 1 August to 31 October 2020 or from the declared average gross earnings after 1 August 2020 in which the employee has actually worked for the particular employer, but not less than EUR 500 and not more than EUR 1 000 per calendar month;
- for an employee of a micro-enterprise - 50% of the average monthly gross salary in the micro-enterprise for the third quarter of 2020 or, the amount of support may also be determined taking into account the information at the disposal of the State Revenue Service (data declared by the employer to the State Revenue Service), if the employee has entered into an employment relationship after the third quarter of 2020; but not less than EUR 500 and not more than EUR 1 000 per calendar month.
- For the persons who, during the period of idle time, return to work after child-care leave, the aid for idle time shall be determined in the amount of 70% of the average parent's benefit granted for August, September and October 2020 but not less than EUR 330 and not exceeding EUR 1 000 per calendar month.
- For a patent fee payer – EUR 500 (in 2020 - EUR 400) if the patent is valid during the aid period or if the patent was valid for at least six months prior to the emergency situation.
- For self-employed person in general tax regime and a recipient of royalties who has not registered as a performer of economic activity - 70% of the declared average monthly gross earnings for the third quarter of 2020, but not less than EUR 500 and not more than EUR 1 000 per calendar month.
- For self-employed person micro-enterprise taxpayer – 50% of the monthly average income of the micro-enterprise tax payer from economic activity for the third quarter of 2020, but not less than EUR 500 and not more than EUR 1 000 per calendar month.

10.1.3. *Benefit duration*

In the first Covid-19 wave, the allowance can be requested for the period of idle time from 14 March 2020 until 30 June 2020. The application is submitted every month.

In the second Covid-19 wave, the idle time allowance can be requested for the period of idle time from 9 November 2020 until 30 June 2021, but not longer than the period for which the restrictions on economic activity related to Covid-19 are applicable. The application is submitted every month.

10.1.4. *Means test*

Allowance is not means-tested.

10.1.5. *Tax treatment*

The allowance is not subject to personal income tax and the mandatory state social insurance contributions.

10.1.6. *Interactions with other components of the tax-benefit system*

The employee who receives allowance for idle time cannot simultaneously receive sickness benefit or municipality benefit in crisis situation.

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

The employee is only entitled to allowance for idle time if he has completely stopped working for a certain period of time (i.e. for the period of downtime). A person who reduced working hours, e.g. from full-time to part-time, is not eligible.

In the first covid-19 wave the allowance for idle time shall not be granted to employees who are at the same time employed in a State or local government authority or capital company (except for pedagogical or creative work) and whose income from such work does not exceed EUR 430 per month, or employees who at the same time perform economic activity and whose income from such activity does not exceed EUR 430 per month.

10.2. *Assistance Allowance for Idle Time (Dīkstāves palīdzības pabalsts)*

Assistance Allowance for Idle Time has been introduced to provide support for those workers and self-employed persons who are affected by the crisis caused by COVID-19 and not eligible for idle allowance or for whom the amount of the idle allowance is below EUR 180. Assistance Allowance is administrated by the State Social Insurance Agency.

10.2.1. *Entitlement and eligibility conditions*

Employees and self-employed with low amount of Idle Allowance have the right to an Assistance Allowance for Idle Time at the amount of EUR 180. It also applies to employees who are not eligible for the Idle Allowance because of the employer does not meet the criteria, as well as self-employed persons who not meet the criteria enabled to Idle Allowance specified by the legislation.

Assistance Allowance for Idle Time is enabled for the period from 14 March 2020 until 30 June 2020 (i.e. the first wave of Covid-19). In the second wave of Covid-19 (from 9 November 2020 until 30 June 2021), the assistance allowance is not available.

10.2.2. *Benefit amounts*

The Assistance Allowance for employees and self-employed who are not eligible to the Allowance for Idle Time (Dīkstāves pabalsts) is granted at the amount of EUR 180 per month. In addition, the State Social Insurance Agency also pays a supplement of EUR 50 for each dependent child (up to 24 years old) in proportion to the calendar days on which the beneficiary is idle.

To those employees and self-employed persons, for which the Allowance for Idle Time is paid at the amount less than EUR 180, the State Social Insurance Agency shall pay the difference to reach the amount of EUR 180.

The assistance allowance for idle time shall be granted and disbursed in proportion to the calendar days for which the person (employee or self-employed person) is idle.

10.2.3. *Benefit duration*

The allowance can be requested for the period of idle time from 14 March 2020 until 30 June 2020. The application is submitted every month.

10.2.4. *Means test*

Allowance is not means-tested.

10.2.5. *Tax treatment*

The allowance is not subject to personal income tax and the compulsory state social insurance contributions.

10.2.6. *Interactions with other components of the tax-benefit system*

The employee or self-employed who receives assistance allowance cannot simultaneously receive sickness benefit or municipality benefit in crisis situation. The allowance is included in the means tests for guaranteed minimum income and housing benefit.

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

The allowance cannot be combined with income from employment.

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

This section shows selected output of the TaxBEN model for Latvia 2022. 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](#). The figure shows outputs for four scenarios:

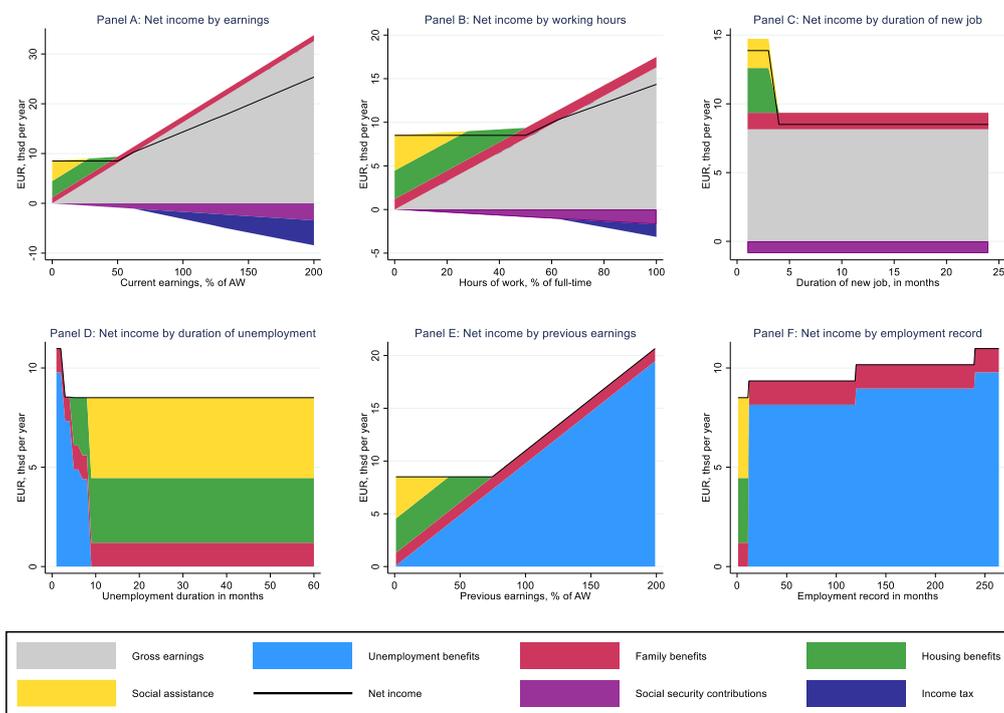
- By percentage of the average wage (**Panel A**);
- By working hours (**Panel B**);
- By duration of a new job (in months) for a person claiming social assistance who started a new employment (**Panel C**);
- By unemployment duration (in months) for a jobseeker claiming unemployment benefits (**Panel 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 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 10. Selected output from the OECD tax-benefit model

40-year old couple with two children



Note: 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 to 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 benefit receipt of 264 consecutive months before the job loss. Panels E and F refer to the 2nd month of unemployment benefit receipt.

Source: 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)

The state social security benefit to person with disability is granted to the person who has been recognised as a person with a disability and has surpassed 18 years of age if person doesn't have the right to receive state pension (except for a survivor's pension for a person with a disability) or insurance compensation in relation to an accident at work or occupational disease. The State social security benefit shall be granted to these persons for the specified period of disability. If person with disability is in an employment relationship, the payment of state social security benefit is not terminated.

State social security benefit for person with disability depends on the established disability group. For persons with I and II disability group, the amount of state social security benefit is also affected by the person's employment status. Unemployed persons with disability group I or II receive a supplement to the state social security benefit : 30% for group I and 20% for group II.

Since 2021, the amounts (EUR per month) of the state social security benefit for persons with disabilities are:

Disability group	Coefficient (applied to the base)	Standard amount	Increased amounts for unemployed persons
For persons with disability since childhood			
I	1.4	190.40	247.52
II	1.2	163.20	195.84
III	Base		136.00
For persons with disability in general case			
I	1.4	152.60	198.38
II	1.2	130.80	156.96
III	Base		109.00

State social security benefit is also 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 amount of state social security benefit for each child is:

- up to 6 years old (including) – EUR 136.00 per month;
- from the age of 7 onwards – EUR 163.00 per month.

Benefit in a crisis situation (Pašvaldības pabalsts krīzes situācijā)

A local government is entitled to grant a benefit to a person (or a family) in a crisis situation without assessing the income, if the family (person) is unable to meet its basic needs due to a disaster or other circumstances independent from the will of the family (person), and it needs psychosocial or material assistance. The benefit in a crisis situation can be paid in cash or in kind.

During Covid-19 pandemic, 50% of the crisis benefit paid by municipalities are co-financed by the state budget but no more than EUR 40 per person per month (from 1 February 2021 – EUR 75 per person per month). The state budget also co-finances 100% of the supplement to the crisis benefit for a dependent child: EUR 50 per child per month. The state co-finances crisis benefit for a person (household) for maximum 3 months.

Benefit is paid during all emergency periods. The first emergency period was from 12 March 2020 to 9 June 2020. The second emergency period was from 9 November 2020 to 6 April 2021 (the crisis benefit is paid also after the end of the second emergency period: until 30 June 2021). The third emergency period was declared from 11 October 2021 to 28 February 2022.

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 ar invaliditāti)

If family state benefit is granted for a child with disability 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 (Bērņa 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 1st 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 (Bērņa ar invaliditāti 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 disability 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 disability and the necessity for special care have been specified, or when the child reaches the age of 18 years. From 1 July 2019

the amount of the care of disabled child benefit is EUR 313.43 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.

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.