Insurance premiums in Statement of Amounts Paid to Individual (2/7/17)

Companies often cover their staff insurance costs, i.e. pay insurance premiums out of their own funds. The employer includes these contributions in the Statement of Amounts Paid to Individual (Summary). This article explores how to report insurance amounts in the Statement, depending on whether their calculation involves using a ratio, splitting the amounts according to the period specified in the contract or invoice, or including amounts actually paid in a particular period.

Reporting premiums in the Statement

Allowable expenses duly claimed under the Personal Income Tax (PIT) Act should be entered on the Statement's lines *Contributions to Private Pension Funds, Endowment Assurance Premiums*, and *Life Assurance, Health and Accident Insurance Premiums*.

The PIT Act states that any endowment assurance premiums paid to private pension funds registered in Latvia or another member state of the EU, the EEA or the OECD in line with licensed pension plans, and to an insurance company registered in Latvia or another EU/EEA/OECD member state, totalling up to 10% of the employee's gross pay for the tax year, as well as life assurance, health or accident insurance premiums totalling up to 10% of the employee's gross pay for the tax year (capped at €426.86 a year) should be excluded from the employee's income subject to payroll tax.

It is important to note that the 10% cap on the employee's gross pay for the tax year is not applied proportionally to any calendar days of the tax year during which the employee is on childcare leave, nor to any calendar days of temporary incapacity or maternity leave for which the employee holds incapacity certificate B.

So, considering what the law says, the Statement should show any insurance amounts actually paid to the insurance company out of the employer's bank account.

If the employer has contributed to a private pension fund for the current and the following tax year, then only the part of the contribution related to the current tax year should be taken into account when determining the ratio of the contribution to the employee's gross pay for the tax year.

If the employer has contributed to a private pension fund for the preceding and the current tax year, then all the contributions should be taken into account when determining the ratio of the contributions to the employee's gross pay for the tax year. So the part of the insurance amount related to the particular tax period should be separated from the period stated on the invoice.

If the employer buys a health insurance policy for the employee that exceeds the statutory threshold, the excess should be added to the employee's taxable income in the last month of the tax year and duly charged to payroll tax.

Companies often forget to include any excess insurance amounts in their payroll calculation for December, and so preparing the Statement involves adjusting the employer's statement of national social insurance contributions for December. We recommend paying attention to your December payroll calculation and making sure you include any excess insurance amounts to avoid being fined when you file adjustments later.