Changes in tax treatment of endowment premiums (2/50/17)

The Personal Income Tax (PIT) Act has been amended with effect from 1 January 2018, affecting employers that provide their staff with endowment insurance in addition to salary. This article explores the coming changes and some preparations that can be made before 2018.

Favourable payroll tax treatment of premiums

The lawmaker has provided for a favourable tax treatment of endowment insurance premiums that employers pay for their staff, i.e. such premium payments are exempt from PIT and national social insurance contributions if certain requirements are met.

This favourable treatment will basically continue into 2018, but endowment policies will have to mature in a minimum of ten years to qualify. This applies to endowment policies entered into after 2017.

The table below summarises the requirements that employer premium payments must meet if they are to qualify for the favourable tax treatment today and next year:

	Today	2018
Requirements that remain unchanged	• Amounts paid during the year to an insurance company registered in Latvia or the EU/EEA should not exceed 10% of the employee’s gross pay for the tax year • The endowment policy should provide that an insurance benefit is payable to the insured person (or their beneficiary) but any other amounts related to the operation or termination of the policy are payable to the employer (policy holder) and the policy should not provide for lending to insured persons	
The amended requirement	The policy matures in at least five years	The policy matures in at least ten years

Endowment policies entered into before 2018 will be governed by the current wording of the PIT Act, including the five-year maturity requirement.

The Finance Ministry or the State Revenue Service has yet to publish an explanation of how the new rules will apply to group policies that are entered into before 2018 and cover a variable pool of employees. In our view, if a group policy is entered into before 2018, then premiums paid for any employees joining it after 2017 should qualify for the favourable treatment.