

Handy hints for payroll accountants: national insurance and income tax 1/6/21



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This article summarises the provisions of tax laws and other legislation affecting the calculation of personal income tax ("PIT"), national social insurance ("NSI") contributions and solidarity tax ("ST") on wages and salaries in 2021.

NSI contributions

The following rates apply in 2021:

Employee category	Employer (%)	Employee (%)	Total rate (%)
Covered by all types of NSI	23.59	10.50	34.09
Eligible for state old-age pension	20.77	9.25	30.02
Recipient of retirement pension or disabled person receiving special state pension	21.94	9.76	31.70

A minimum NSI payment

The NSI rules have been amended with effect from 1 July 2021 to require the employer to make a minimum NSI payment for an employee that is paid below the minimum monthly wage of EUR 500. The minimum requirement will also apply proportionally to two or more employers if the person has two or more jobs paying below the minimum wage. The minimum NSI payment is the employer's cost.

PIT and taxable income

In 2021 the following progressive rates apply on employment income:

Rate	The employee has filed a wage tax book and is socially insured in Latvia	The employee has not filed a wage tax book but is socially insured in Latvia	A foreign national who is not socially insured in Latvia
20%	The employer applies this on a monthly income of up to EUR 1,667*	The employer does not apply this	The employer does not apply this (unless the person has taken out and filed a Latvian wage tax book with the employer)
23%	The employer applies this on any slice of monthly income exceeding EUR 1,667 or on the income of up to EUR 1,667 if the wage tax book carries such a note	The employer applies this on the entire income	The employer applies this on a monthly income of up to EUR 5,233
31%	The employer does not apply this	The employer does not apply this	The employer applies this on any slice of monthly income exceeding EUR 5,233

* An employee may choose to apply a 23% PIT on their income and refuse to apply the State Revenue

Service's personal allowance forecast for the tax year by making a note in their wage tax book or by filing a written request with their employer under sections 15(23) and 30(8) of the PIT Act.

The following items multiplied by 20% are deductible from the PIT charge:

- Employee NSI contributions
- Employee ST contributions
- An income-differentiated personal allowance if a wage tax book has been filed and the salary does not exceed EUR 1,800 (up from EUR 1,200 in 2020)

In 2021 the monthly personal allowance is capped at EUR 300 if the monthly taxable income does not exceed EUR 500. In forecasting the income-differentiated allowance, the SRS will use a coefficient of 0.23077 to apply the allowance to a monthly income between EUR 500 and EUR 1,800 and reduce it proportionally to zero.

- A monthly allowance of EUR 250 for each dependant entered on the wage tax book if filed with the employer
- An allowance of EUR 154 a month (EUR 1,848 a year) for a class I or II disabled person and EUR 120 a month (EUR 1,440 a year) for class III, instead of a personal allowance
- An allowance of EUR 154 a month (EUR 1,848 a year) for a politically repressed person and for a person recognised as a member of the national resistance movement

A taxpayer who is simultaneously entitled to extra allowances as a disabled person and as a politically repressed person or as a member of the national resistance movement will receive the higher entitlement.

In 2021 the amount of income attracting NSI contributions is capped at EUR 62,800. Once the cap is exceeded the employer must continue calculating and withholding the employer part and the employee part but those payments will be treated as ST contributions.

In 2021 the ST rate is 25%. Any difference between the ST actually paid (34.09%) and the ST charge (25%) will be recorded as an ST credit and refunded to the employer by 1 September in the following tax year.

Wages, salaries and other fees that are paid after 2020 for any employment or other activities carried out before 2021 will attract PIT and allowances at the old rates.

PIT and NSI on royalties

In 2021 significant changes have been made to the PIT and NSI treatment of individuals working in return for royalties. PIT and NSI continue as in 2020 up to 30 June 2021, but the royalties scheme changes significantly for the period from 1 July to 31 December.

1 January – 30 June

For persons earning employment income (at least the minimum wage) in addition to receiving royalties, the payer of royalties must –

- pay a 5% NSI on gross royalties;
- withhold a 20% PIT (or a 23% PIT if the person has made a note in their wage tax book or filed a written request) after deducting expenses at a rate of 25% or 50%.

1 July – 31 December

The payer of royalties must withhold a 25% or 40% PIT on the entire royalties, without applying a notional expense rate. The PIT withheld and paid to the government will be split between PIT and NSI as 20% and 80% respectively. Unless royalties are paid by a collective management organisation the following PIT rates apply:

- 25% on an income of up to EUR 25,000;
- 40% on any slice of income exceeding EUR 25,000.

The payer of royalties is not required to pay a 5% NSI on gross royalties or file the employer's report with the SRS. All the payer of royalties has to do is file a statement of amounts paid to the individual under the standard procedure and pay tax on or before the 23rd day of the following month.

The deadline for paying PIT and the single tax account

The deadline has changed from 2021. It is now the 23rd day of each month and payments must be made into the single tax account.

The minimum monthly wage and hourly rate

In 2021 the minimum monthly wage is EUR 500 (up from EUR 430 in 2020).

As before, the minimum hourly rate for each month is arrived at by dividing the minimum monthly wage by the normal working hours for the month. For example, if an employee is to work 160 hours a month (40 hours a week) their minimum hourly rate will be calculated as follows:

$$500 / 160 = \text{EUR } 3.125$$

Business risk duty

In 2021 the employer must pay this duty monthly at a rate of EUR 0.36 for each employee that has an employment relationship and for whom seasonal farmhand income tax is not paid.