

Adoption of minimum NSIC income 3/27/21



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Latvia has adopted minimum mandatory national social insurance contributions ("NSIC") from 1 July 2021. The parliamentary opposition as well as several business organisations and industry associations asked the MPs in an open letter to postpone adoption of the minimum NSIC scheme until the economy recovers from the Covid-19 restrictions. Despite public criticisms, the new regime came into force on 1 July. This article explores cases where a self-employed person is permitted not to apply minimum NSIC to their income after filing a written request with the State Revenue Service ("SRS").

One of the reasons for adopting minimum NSIC is to ensure a sustainable social insurance policy given the weaknesses of this area highlighted by the Covid-19 crisis, and to prevent various tax regimes from being used for optimisation purposes. Please see our article ["Implementation of minimum NSI income is \(not?\) approaching"](#) posted earlier this year for a detailed description of the changes.

When are minimum NSIC not due?

The law makes several exclusions from the minimum contribution requirement that apply to a fairly large percentage of the population, such as pensioners and individuals with a Class 1 or Class 2 disability (for a full list of exclusions see the article named above). However, a trader who does not fall under any of the exclusions and anticipates that his quarterly business income will stay below EUR 1,500 can refrain from applying minimum NSIC to his revenue.

If a self-employed person who is not an employee at the same time expects his quarterly business income to be less than EUR 1,500 then he can prepare and file with the SRS an application relating to his expected income in the next quarter. As a result, no minimum NSIC will be assessed.

The application should be filed in free form through the SRS's Electronic Declaration System ("EDS") using the section "Correspondence with the SRS":

- by 15 July for the third quarter of 2021;
- by 15 October for the fourth quarter of 2021.

If the self-employed has filed an application with the SRS for his expected income in the next quarter, the SRS will pass information to the National Social Insurance Agency ("NSIA"). This agency will refrain from computing minimum NSIC and the self-employed will pay mandatory contributions on his actual business income.

An example

Siegfried is a trader selling souvenirs in a small seaside village. In previous years he earned EUR 3,000 on average over three months during the summer season. Most of his customers are people visiting a nearby holiday camp. This summer the camp is closed for refurbishment so Siegfried's customer stream is likely to

shrink and push his souvenir sales down to below EUR 1,500 for the whole summer or the third quarter.

Forecasting a drop in revenue, Siegfried prepared and filed with the SRS a request for avoiding minimum NSIC at the beginning of July. In Siegfried's case the NSIA does not compute minimum NSIC and he pays mandatory contributions on his actual business income.

Had Siegfried failed to submit an application to the SRS, the NSIA would compute 10% minimum NSIC on EUR 1,500 for the quarter, i.e. a quarterly payment of EUR 150.

If a self-employed fails to provide the NSIA with an application for expected income in the next quarter, the NSIA will compute minimum NSIC the person has to pay additionally unless he has paid contributions on at least EUR 1,500 for the quarter. The applicable rate will be 10% of the quarterly income below EUR 1,500.

Once the NSIA has computed the minimum NSIC payable additionally, they will notify this amount to the SRS by 20 December 2021, and the SRS will then notify the self-employed through EDS. The person will receive information through EDS and by email on the minimum contributions computed by the NSIA within one working day. The self-employed is liable to pay the minimum contributions for the previous calendar year by the 23rd day of the third month after receiving an EDS notice.

Remember, if the self-employed is an employee at the same time, the additional minimum NSIC will be fully paid by the employer, and the self-employed does not have to pay it.

If the monthly business income reaches or exceeds the minimum wage (EUR 500) the minimum NSIC rules will not apply to the self-employed and he will have to pay a 31.07% NSIC on at least EUR 500 (or a higher amount of his choice) and 10% on the difference between the actual monthly income and EUR 500 (or the chosen higher amount).