

# Exempt fringe benefits in Baltic States 2/31/23



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The current economic challenges, such as high inflation, scarce resources and pressures to increase profitability, continue pushing businesses towards a global dilemma: either motivate your workers to stay on with a pay rise and then say goodbye to your profit, or cancel your plans for higher pay and perks and then lose skilled workers. This dilemma might have you looking for some more efficient types of employer's financial support with a low or no tax burden, such as non-taxable fringe benefits. This article offers an overview of exempt fringes and other useful tools employers can use to support their workers in the Baltic States.

## Why is employer's financial support needed?

As the Great Resignation goes on, the international labour market has become increasingly unstable as a result of the pandemic and high inflation rates. Supporting the financial wellbeing of your workers is crucial to helping them with the rising cost of living, which has caused them a lot of stress already. A lack of support causes tension among workers, with recent surveys failing to provide the desired consolation: workers are insisting on a pay rise. Moreover, PwC's survey "Global Workforce Hopes and Fears" shows that 71% of workers consider leaving for another job where they will earn more. So the employers need to hold all the cards to satisfy their workers and stay profitable at the same time. Under these circumstances, exempt fringe benefits are the golden mean, as they can play an important role in motivating your workers to keep working for your company without any further tax liabilities. This means the same corporate budget gives the worker a higher net benefit.

## An overview of Latvian non-taxable fringe benefits

The Personal Income Tax (PIT) Act prescribes a range of tax-free benefits employers can provide to their workers. Fringes that are exempt from PIT are also exempt from social insurance contributions (SIC). Here's a list of common exempt fringes:

- The employer's contributions to the worker's pension fund and endowment assurance premiums up to 10% of the person's taxable income. The insurance contract must be for a minimum of ten years.
- Employer-paid health and accident insurance contributions up to 10% of the person's taxable income, capped at EUR 426.86 a year.
- Tax-free scholarships for trainees under specific conditions, as well as meals and medical (wellbeing) expenses up to EUR 480 a year. There are certain criteria the employer must meet, such as having the required number of workers and signing a collective agreement.
- Awards such as a letter of recognition, honour or gratitude, diploma, medal, or cup. Employers may also give tangible gifts that will not be taxed if their value is up to EUR 15.
- Organising team-building events. These will be exempt from corporate income tax if their cost for the reporting year doesn't exceed 5% of total gross wages calculated for workers in the

previous reporting year for which SIC have been paid.

## Royalties

Apart from a tax exemption, it's also possible to provide several fringe benefits with a lower tax exposure, e.g. a company car that's subject to a special monthly tax, or a car rented from a worker paying a 10% PIT on the agreed rent. Under the PIT Act, workers may also be rewarded for activities that are covered by royalty rules. This applies if a worker engages in intellectual work, with a reduced tax rate of 25% covering PIT and SIC (up to EUR 25,000 in royalties a year) or 40% (over EUR 25,000). There are plans to require all royalty recipients to register their economic activity from 2024, but there is also a chance that the current rules will still apply. Taxpayers will then choose to pay taxes under general procedure (PIT plus SIC). Opting for the microbusiness taxpayer scheme will mean the same tax exposure as currently.

## An overview of Estonian non-taxable fringe benefits

The Estonian Income Tax Act provides for several benefits a worker may receive from their employer free of tax if certain conditions are met. Fringes provided in this way are not taxable in the worker's hands. Here's a list of common exempt fringes:

- Expenses incurred in improving workers' health up to EUR 100 per worker quarterly if the employer has enabled these for all the staff. Examples of such expenses include a participation fee in public sporting events, regular use of sporting venues, and insurance premiums under a sickness insurance contract.
- Stock option agreements if all the conditions for a tax exemption are met.
- Compensation for the business use of a private car. The allowance is EUR 0.3 per km, but not to exceed EUR 335 a month. The worker must keep trip records.
- Compensation for public transport fares workers pay to commute between home and work. Compensation for other fares is not taxed as a fringe benefit if it's impossible to make the journey using public transport with a reasonable expenditure of time and money.
- The employer's business expenses for a worker's accommodation if two conditions are met:
  - 1) The worker's home is at least 50 km away from work and they don't own any residential property located closer to work, and these conditions are met throughout the period of accommodation.
  - 2) The worker's accommodation expenses are up to EUR 200 per calendar month in the case of Tallinn or Tartu, and EUR 100 in other cases.

## An overview of Lithuanian non-taxable fringe benefits

Lithuanian PIT rules list several benefits that may be provided to workers free of tax. Some of the most popular exempt perks are:

- Insurance payments (including private health insurance and life insurance premiums) and worker pension fund contributions may be exempt if their overall value doesn't exceed 25% of the person's employment income for the calendar year. For health insurance it's also important to ensure the funds are used for medical services in licensed clinics or to purchase medications at pharmacies.

- Gifts and prizes worth up to EUR 200 a year are exempt. For instance, employers can give their workers Christmas presents worth up to EUR 200 per person.
- Contributions the employer pays directly to an educational institution for a worker's higher education may be exempt. Also, upskilling courses and staff training courses that are directly related to their job duties are exempt.
- Employers may pay public transport fares for workers' trips to work free of tax. This applies to public transport only and doesn't cover taxis, private chauffeurs or private cars.

## Conclusion

Each Baltic country has its own range of exempt fringe benefits, which are subject to various restrictions on their use, including limits and other specific conditions. It's important to note that the diversity of fringes is becoming increasingly popular among workers, which requires today's benefits packages to be flexible and adaptable to each individual worker. Employers should consider all opportunities that allow their workers to make the most of tax-free perks, while paying particular attention to statutory conditions. To avoid tax risks in awarding fringes, you are advised to reach out to tax professionals, who will help you design a compliant benefits package that meets today's standards.

Read more about flexible fringe plans in our [May's article](#).