

Payroll tax treatment of bonus for last year (1/30/18)

Employers often pay a bonus after assessing the company's financial results and staff performance. Under the Labour Code, the Personal Income Tax Act and the National Social Insurance (NSI) Act, a bonus is part of employment remuneration and attracts payroll taxes, i.e. personal income tax (PIT) and NSI contributions. Since a bonus often covers a past period, or even two or more past periods, in which different tax rates were in force, this raises questions about applicable rates and reporting procedures. This article explores the payroll tax treatment of bonuses that are paid to current and former employees.

Applicable rates of payroll taxes

Where remuneration is paid for the last year (e.g. a December salary paid next January) the payroll tax rates for that tax year should be applied in general under paragraph 97 of the Cabinet of Ministers' Regulation No. 899, *Application of Provisions of the PIT Act*). However, bonuses paid for past periods attract rates applicable at the time of payment. The table below shows how different rates apply to a salary and a bonus earned for 2017 and paid in 2018:

	Salary for December 2017 paid in January 2018	Bonus paid in 2018 for work done in 2017
PIT	23%	20% / 23% / 31.4%
NSI	34.09% (10.5% and 23.59%)	35.09% (11% and 24.09%)

Employer statements

A bonus paid to a current employee

A bonus paid to an employee who is still working for the company should be included in an employer statement for the month of payment, which the employer should file with the State Revenue Service (SRS) under general procedure, using the applicable rates.

A bonus paid to a former employee

Where a bonus is paid to an employee who no longer works for the company and was covered by the Latvian social security scheme during their employment, first of all adjustments should be made to the employer statement for the last month in which the person was still employed by the company, giving the following details:

1. the amount of the bonus;
2. NSI at the rate for the year the bonus was calculated in; and
3. the nearest date of NSI contributions to minimise the risk of a late charge.

After that the employer should report amounts paid to the individual for the period in which the bonus is actually paid (e.g. August 2018), giving the following details:

1. the amount of the bonus;
2. the remuneration code "1001" (applicable also to bonuses paid under an employment contract);
3. the employee part of NSI as an allowable expense (with an adjustment for 20% PIT applicable to an

- employee that has not filed a payroll tax book); and
4. the amount of PIT due at the rate of 23%.

If the person is not covered by the Latvian social security scheme, the monthly statement does not need adjusting. The employer should file only a statement of amounts paid to the individual for the year in which the bonus was paid, charging PIT at rates of 23% and 31.4%.