

Handy hints for payroll accountants: national insurance and income tax (3/2/20)

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 on wages and salaries in 2020.

NSI contributions

The following rates apply in 2020:

Employee category	Employer (%)	Employee (%)	Total rate (%)
Covered by all types of NSI	24.09	11.00	35.09
Eligible for state old-age pension	21.31	9.56	30.87
Recipient of retirement pension or disabled person receiving special state pension	22.52	10.12	32.64

PIT and taxable income

In 2020, the following progressive rates apply on employment income:

Rate	The employee has filed a payroll tax book and is socially insured in Latvia	The employee has not filed a payroll 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 €1,667*	The employer does not apply this	The employer does not apply this (unless the person has obtained and filed a Latvian payroll tax book with the employer)
23%	The employer applies this on any slice of monthly income exceeding €1,667	The employer applies this on the entire income	The employer applies this on a monthly income of up to €5,233
31.4%	The employer does not apply this	The employer does not apply this	The employer applies this on any slice of monthly income exceeding €5,233

* Under sections 15(23) and 30(8) of the PIT Act an employee may choose to apply a 23% PIT on their income and waive any personal allowance forecast by the State Revenue Service for the tax year by making a note in the payroll tax book or by filing an application with the employer ([MindLink Flash News, 07.12.2018](#)).

The following items multiplied by 20% will be deducted from the PIT charge:

- employee NSI contributions;
- employee solidarity tax contributions;
- an income-differentiated personal allowance if a payroll tax book has been filed and the salary does not exceed €1200 (up from €1,100 in 2019).

In 2020 the monthly personal allowance is capped at €300 (up from €230 in 2019) if taxable income does not exceed €500 (up from €440 in 2019). In forecasting the income-differentiated personal allowance, the State Revenue Service will apply a coefficient of 1.09 ([MindLink Flash News, 19.12.2019](#)).

- a monthly allowance of €250 (up from €230 in 2019) for each dependant entered on the payroll tax book if filed with the employer;
- an allowance of €154 a month (€1,848 a year) for a disabled person in class I or II, and €120 a

month (€1,440 a year) for class III, instead of a personal allowance;

- an allowance of €154 a month (€1,848 a year) for a politically repressed person and a person recognised as a member of the national resistance movement.

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

In 2020 the amount of income attracting NSI contributions is capped at €62,800. The employer must continue calculating and withholding the employer part and the employee part after the cap is exceeded, but those payments will be treated as solidarity tax (ST) contributions.

In 2020 the ST rate is 25.5%. Any difference between the ST actually paid (e.g. 35.09%) and the ST charged at 25.5% 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 2019 for any employment or other activities carried out before 2020 will attract PIT and allowances at the old rates.

The minimum wage and hourly rate

The minimum monthly wage of €430 remains unchanged in 2020.

The minimum hourly rate for each month is still 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:

$$430 / 160 = €2.6875$$

Business risk duty

In 2020 this duty is payable at a rate of €0.36 per employee a month.