

Aspects affecting employer and idle workers (1/17/20)

We have already informed our MindLink.lv subscribers about tax measures aimed at helping employers, workers and traders cope with the economic consequences of the COVID-19 crisis ([20.03.2020](#) and [27.03.2020](#)). Idleness benefit is one of the support measures for employers and workers ([06.04.2020](#)). This article explores how to record idleness benefit in the books and how to prepare an employer's statement for an idle worker.

The accounting treatment of idleness benefit

Instead of paying it into the bank account of the company affected by the crisis, the State Revenue Service ("SRS") will pay the benefit into the workers' bank accounts named in the employer's benefit claim or when paying service providers in Latvia. The idleness benefit is exempt from personal income tax ("PIT") and national social insurance ("NSI") contributions. The idleness benefit is quite similar to those commonly awarded by the National Social Insurance Agency, such as sickness benefit (sick note B), paternity or parent benefit, and other benefits payable to employees. Accordingly, the idleness benefit can stay off the company's books and will have no effect on its financial indicators. However, the procedures for recording redundancy payments that are calculated and paid by the employer remain unchanged.

Must the employee remain idle for a full month?

Idleness benefit aims to compensate workers for any unpaid wages over the period running from 14 March to 14 May 2020 but not going past the expiry date of the Cabinet of Ministers' decision on the emergency situation.

A worker might be idle for less than a full calendar month, and the employer's application should specify the idle time in the tax month for which idleness benefit is claimed. For example, if the employer puts in a claim for March but the worker did some work for the company and will be paid for it over the period from 1 to 20 March, the idle time to appear on the application runs from the date for which the employer no longer pays salary to the date the worker does no work for the company in the tax period. For example, the idle time might run from 21 to 31 March. An application for the period from 14 March to 31 March should be filed by 25 April, and later by the 25th day of each following month. The idleness benefit is payable within five working days after the SRS receives the application.

Completing the employer's statement for the tax period the employee is idle

- If the worker was idle for a full month in the tax period for which the employer's statement should be completed and the employer pays no income in this period, the employer's statement should report €0 employment income and NSI contributions and zero hours worked. If salary is paid in the current month, the employer's statement should also report a €0 PIT deduction. National business risk duty is payable for the idle time because the employment contract still stands.
- If the worker is idle throughout April and the employer does not pay income for this period but pays the March salary in early April, the employer's statement should report the PIT deducted from the March salary. For April the employment income and NSI contributions are €0 and zero hours worked.
- If the worker was idle for less than a full month, say, 15–31 March, the employer's statement for March should report the number of hours worked in March, the employment income calculated for those hours plus any extra amounts paid (e.g. bonuses) and the total NSI contributions. If the

employment income is paid in March, the employer's statement should also report the PIT deducted. If the employment income is paid in April, the PIT deduction should be reported in the statement for April.

- If the employer is denied idleness benefit, he should report the full employment income for the tax period, as well as calculating and reporting the NSI contributions and the PIT deduction, and the number of hours actually worked. There may be a situation where the worker was in fact idle on 15-31 March as the company did not trade during that period, and the employer claimed idleness benefit but the SRS refused it because the employer failed to meet the criteria. In that case the employer should calculate and pay salary also for the period in which no business was conducted under section 74 of the Labour Code.

Below we have summarised key rules the employer and idle workers should consider when it comes to idleness benefit:

- Payment of idleness benefit will stop if the employer hires new workers during the idle time;
- Workers hired after 1 March do not qualify for idleness benefit;
- The worker cannot receive multiple benefits for a single period, e.g. idleness benefit and sickness benefit (sick note B);
- If the employer files an adjusted statement of the worker's income for the period used for calculating the idleness benefit after it was awarded, the amount of the award will not be recalculated.

If the employer has claimed idleness benefit for a certain period and the worker has received it but the company started trading during the period, the employer should voluntarily refund the benefit received, or the SRS will collect it under the Taxes and Duties Act. This rule applies also if the employer has increased his headcount compared to when the idle time began.