

# Handy hints for payroll accountants in 2023 1/2/23



Senior Consultant, Tax, PwC Latvia  
Madara Hmelevska

A new year, a new beginning! As usual, this article summarises the provisions of tax laws and other legislation affecting the calculation of national social insurance (NSI) contributions, solidarity tax (ST) and personal income tax (PIT) on wages and salaries in 2023.

## NSI contributions

The 2022 rates continue to apply in 2023:

Employee category	Employer (%)	Employee (%)	Total rate (%)
Covered by all types of NSI	23.59	10.5	34.09
Eligible for state old-age pension	20.77	9.25	30.02
Recipient of retirement pension or disabled person receiving special state pension	21.94	9.76	31.70

In 2023 the amount of income attracting NSI contributions is still capped at EUR 78,100. Once the cap is exceeded the employer must continue calculating and withholding the employer part and the employee part of NSI contributions but those payments will be treated as ST contributions.

In 2023 the ST rate is 25%. Any difference between the ST actually paid (34.09%) and the ST charge (25%) will be recorded as an ST credit and refunded to the employer by 1 September in the following tax year.

## A minimum NSI payment

There is a minimum NSI payment the employer is required to make for an employee that is paid below the minimum monthly wage of EUR 620. The minimum requirement also applies proportionally to two or more employers if the person has two or more jobs paying below the minimum wage. The National Social Insurance Agency computes the minimum NSI proportion for each employer separately and posts payment details via the Electronic Declaration System. While the minimum NSI payment is the employer's cost, it need not appear on monthly or other reports identifying the amount of NSI.

## Computing PIT and taxable income

In 2023, PIT applies on employment income at the following progressive rates and thresholds:

Rate	The employee has filed a wage tax book and is socially insured in Latvia	The employee has not filed a wage 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 EUR 1,667*	The employer does not apply this	The employer does not apply this (unless the person has taken out and filed a Latvian wage tax book with the employer)
23%	The employer applies this on any slice of monthly income exceeding EUR 1,667	The employer applies this on the entire income	The employer applies this on a monthly income of up to EUR 6,508.33

31%	The employer does not apply this	The employer does not apply this	The employer applies this on any slice of monthly income exceeding EUR 6,508.33
-----	----------------------------------	----------------------------------	---

*\* An employee may choose to apply a 23% PIT on their income and refuse to apply the State Revenue Service's personal allowance forecast for the tax year, by making a note in their wage tax book or filing a written request with their employer under sections 15(23) and 30(8) of the PIT Act.*

The following items multiplied by 20% are deductible from the PIT charge:

- Employee NSI contributions
- Employee ST contributions
- An income-differentiated personal allowance if a wage tax book has been filed and the salary does not exceed EUR 1,800

*In 2023 the monthly personal allowance cap is EUR 500.*

- A monthly allowance of EUR 250 for each dependant on a wage tax book filed with the employer
- An allowance of EUR 154 a month (EUR 1,848 a year) for a class I or II disabled person and EUR 120 a month (EUR 1,440 a year) for class III, instead of a personal allowance
- An allowance of EUR 154 a month (EUR 1,848 a year) for a politically repressed person and for a person recognised as a member of the national resistance movement

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

## PIT and NSI for the royalties scheme

In 2023 the PIT and NSI treatment of persons working under the royalties scheme remains unchanged according to amendments to the PIT Act and the NSI Act passed in early December 2022. The payer of royalties must withhold a 25% or 40% PIT on the entire royalties without applying a notional expense rate unless the recipient of royalties is registered as a sole trader under the general scheme or as a payer of microbusiness tax.

The PIT withheld and paid to the government is split between PIT and NSI as 20% and 80% respectively. Unless royalties are paid by a collective management organisation the following PIT rates apply:

- 25% on an income of up to EUR 25,000
- 40% on any slice of income exceeding EUR 25,000

In 2023 the payer of royalties is still not required to pay a 5% NSI or file the employer's report with the State Revenue Service. All the payer of royalties has to do is file a statement of amounts paid to the individual under the old procedure and pay tax on or before the 23rd day of the following month.

Recipients of royalties registered as payers of microbusiness tax have the option of using a business revenue account. So when it comes to signing a contract, the payer of royalties should find out whether the recipient is using a business revenue account, which allows the payer not to withhold PIT at source.

## The minimum monthly wage and hourly tariff rate

Under the amendments of 13 December 2022 to the Cabinet of Ministers' Rule No. 656, *The Amount of the Minimum Monthly Wage for Normal Working Hours and Computing the Minimum Hourly Tariff Rate*, the minimum monthly wage for normal working hours (160) is increased to EUR 620 from 1 January 2023.

The minimum hourly tariff 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 tariff rate will be calculated as follows:

$$620 / 160 = \text{EUR } 3.875$$

## Business risk duty

In 2023 the employer must pay this duty monthly at a rate of EUR 0.36 for each employee that has an employment relationship and for whom seasonal farmhand income tax is not paid.