

Upcoming tax changes: Why will it become beneficial for employers to look after employees' health? 1/11/25

In Latvia, medical costs are very high for many people, especially for patients with serious illnesses, and the state does not cover them in full. Employers can support their employees financially, but the existing regulation makes this financially disadvantageous. The bill, which is in its 3rd reading in Parliament (Saeima), proposes significant changes that could change this system and allow employers to cover medical costs without an additional tax burden. This article informs you about the expected changes and the consequences for employers and employees alike.

Current situation

Currently in Latvia, financial support from employers to cover the medical expenses of employees is taxed as it is considered income from paid labour under Section 8 of the Personal Income Tax Law (PIT Law). If a company covers the medical expenses of an employee or their dependents, these payments are subject to personal income tax (PIT) and compulsory national social insurance contributions (NCSIC). For example, the assumption of medical expenses of EUR 1,000 or the payment of more than EUR 1,500 to the company. Employers may, therefore, be reluctant to cover these costs.

Future tax relief?

The intention is to exempt employer-financed medical costs borne by employees or their dependents from tax. To this end, the PIT Act provides for two important amendments:

1. A new Section 2 15 is added to Article 8 of the IIA Law, which provides that the support provided by the employer for the purchase of medical technology and medicines is not considered income from paid work if the support does not exceed the amount not covered by the state and if the necessity of the treatment has been confirmed by a consortium of doctors.
2. A new 32 is added to Article 9 of the IIA Act. 4, which provides that such payments are also exempt from PIT, eliminating the additional tax burden for employers and employees.

What does this mean for employees and employers?

For employees, the new framework means additional social guarantees, financial relief and wider access to the necessary treatments, especially in cases where public funds are insufficient.

For employers, these changes mean a lower tax burden for this support and could contribute to the implementation of programmes to promote employee health. Improved access to treatment could reduce employee absenteeism due to illness and contribute to higher productivity, thereby increasing the efficiency of the company. At the same time, these changes will help retain skilled labour and reduce staff turnover. In order to benefit from the tax incentives, employers must provide appropriate documentation and co-operate with the State Revenue Service (SRS) and healthcare institutions.

Conclusions

The tax incentives provided for in the bill create a legal and financial basis for employers to contribute to the medical costs of their employees and reduce the existing restrictions imposed by the tax burden. These changes can contribute to more sustainable employment by improving corporate social responsibility and employees' access to the healthcare they need. However, their actual impact will depend on the willingness of employers to utilise this mechanism and on the future policy for financing the national healthcare system.

More about personal tax matters and related legislative changes in 2025: the website of PwC's Academy Latvia

[Link to the bill](#)