

THE OECD TAX-BENEFIT DATABASE

Description of policy rules for
Latvia 2023



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Description of policy rules for 2023

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Preface

This report provides a detailed description of the tax and benefit rules in Latvia as they apply to working-age individuals and their dependent children. It also includes output from the [OECD Tax-Benefit model \(TaxBEN\)](#), which puts all these complex legal rules into a unified methodological framework that enables international comparisons of how tax liabilities and benefit entitlements affect the net disposable income of families in different labour market circumstances, e.g. in employment versus unemployment.

The **main body** of the report describes the rules that are relevant for the family and labour market characteristics that are within the scope of the **TaxBEN** model (see below for the methodology and user guide). The **annexes** provide information on other cash benefits and taxes on employment income that are relevant for other groups of the working-age population, but are outside the scope of the **TaxBEN** model.

TaxBEN is essentially a large cross-country calculator of tax liabilities and benefit entitlements for a broad set of *hypothetical* families (“vignettes”), e.g. a married couple of 40-years-old adults with two children aged 4 and 6 (click [here](#) for a quick overview of the **TaxBEN** model). **TaxBEN** incorporates rules on the main taxes on employment income, social contributions paid by employees and employers, as well as the main cash and near-cash benefit programmes, including unemployment benefits, family and childcare benefits, guaranteed minimum-income benefits, cash housing benefits, and employment-conditional benefits. Disability benefits, maternity and parental leaves benefits are included in the model for a sub-set of countries and years. The main policy instruments that are currently not included in the **TaxBEN** model are taxes on wealth (e.g. taxes on immovable and unmovable properties), indirect taxes (e.g. VAT), early-retirement benefits, short-time work compensation schemes, sickness benefits, and in-kind benefits (e.g. subsidised transport and free health care).

Useful online resources for the OECD tax-benefit model (TaxBEN)



[TaxBEN web calculator](#)



[Methodology and user guide](#)



[OECD tax-benefit data portal](#)



[Network of national experts](#)


Guidelines for updating this report (for national experts)



[General guidelines](#)

Detailed [guidelines for updating Section 5](#) “Net costs for Early Childhood Education and Care”

Reading notes and further details on the content of this report

- **Reference date** for the policy rules described in this report: **1 January 2023**.
- The symbol  in the text provides a link to the glossary of technical terms.
- Section titles provide the names of taxes and benefits as they are known in the country: first, direct translation into English, then (in brackets) the name in the national language.
- **TaxBEN** variables are indicated in the text using the format `[variable name]`.

The OECD tax-benefit model for Latvia: Policy rules in 2023

1. Reference wages and other reference amounts

Average wage [**AW**]: The OECD tax-benefit model uses Secretariat estimates of the average full-time wage (available [here](#))¹. If Secretariat estimates are not available yet, the model uses wage projections obtained by applying forecasted wage growth² to the latest available wage estimate.

The minimum wage [**MIN**] in 2023 is EUR 620 per month. The annual minimum wage is computed by multiplying the minimum monthly wage (as of 1 January 2023) by 12, i.e. EUR 620 * 12 = EUR 7 440.

Latvian laws and regulations do not provide for automatic indexation of the minimum monthly wage. The Ministry of Welfare of the Republic of Latvia, together with the Ministry of Finance and the Ministry of Economy, evaluates the economic situation in the country every year and develops proposals for the amount of the minimum monthly wage for the following year.

The Ministry of Welfare submits the prepared proposal (usually several options including the analytical basis) to the Social Security Sub-Council of the National Tripartite Cooperation Council (NTCC) for consideration. The Regulation of the Cabinet of Ministers No.563 of 18 August, 2016 "The Procedures for the Determination and Review of the Minimum Monthly Salary" encompasses a list of data that need to be taken into account when the initial proposal to be submitted to the Social Security Sub-Council of the NTCC is prepared.³ After this the Ministry of Welfare submits a proposal to the NTCC for consideration.

The amount of the minimum monthly wage is reviewed regularly (once a year) but considering that the Cabinet of Ministers can decide to maintain the amount of the minimum monthly salary for the next year at the previous level, the increase of the amount of the minimum monthly wage is not regular.

In case the Cabinet of Ministers decides to increase the minimum monthly wage, it is increased as of January 1 of the following year.

¹ Average Wages are estimated by the [Centre for Tax Policy and Administration](#) at the OECD. For more information on methodology see the latest [Taxing Wages publication](#).


² Wage growth projections are based on [OECD Economic Outlook](#) and [EU economic forecasts](#) (for non-OECD countries).

³ See here: <https://likumi.lv/ta/en/en/id/284262>.

2. Unemployment benefits

2.1. Unemployment benefit (*Bezdarbnieka pabalsts*)


Variable names: [UI_p; UI_s]

This is an unemployment insurance benefit. It is contributory, not means-tested and not taxable. 

2.1.1. Eligibility conditions

Age: Person has reached 15 years of age and has not reached the statutory pension age necessary for the granting state old-age pension (or earlier retirement old-age pension).

Contribution/employment history: Unemployment benefit is granted to an unemployed person, whose length of period of insurance is not less than one year and for whom mandatory social insurance contributions have been paid for a period of not less than 12 months within the last preceding 16 months before obtaining of the status of unemployed.

Behavioural requirements and related eligibility conditions:  TaxBEN assumes that the following compulsory conditions are satisfied when simulating unemployment benefits.⁴ The benefit claimant is:

1. registered with the State Employment Agency;
2. not working (is not considered to be an employee or a self-employed person);
3. involuntarily unemployed;⁵
4. actively seeking employment;
5. able to work and ready to enter into employment relationships without delay;
6. not acquiring an education at a general secondary or vocational secondary education institution, excluding evening schools;
7. not performing commercial activities or his or her commercial activities have been suspended in accordance with regulatory enactments;
8. not completely state supported.

2.1.2. Benefit amount

Calculation base: The average insurance contribution wage for determining unemployment benefit is calculated as an average of the person's insurance contribution wages (i.e. monthly incomes from which state social insurance contributions are made⁶)

⁴ Details on behavioural requirements and sanction provisions for unemployment benefits are reported in regularly updated companion reports, see [How demanding are activation requirements for jobseekers? - OECD](#).

⁵ Eligibility for unemployment benefit in Latvia does not depend on whether the job loss is "voluntary" or not. Voluntarily dismissal affects the granting procedure of unemployment benefit. If a person has become unemployed on the basis of his or her notice (voluntary) or due to a violation, the unemployment benefit shall be granted not earlier than two months after the day when the status of an unemployed person was obtained. Two months waiting period has been introduced in order to motivate people to retain their jobs and not to violate labour contracts and working regulations.

⁶ Social security contribution ceiling (see Section 7.) indirectly defines the maximum unemployment benefit amount, i.e. the benefit amount cannot exceed the level of the benefit computed based on the

for a 12 month period, such period ending two calendar months prior to the month in which the person became unemployed. The two months when the person had the highest and the lowest contributions wage are not taken into account when computing the average.

Benefit amount: Unemployment benefit amount depends on persons' social insurance contribution wage and the length of the insurance period:

Insurance Record	% of average social insurance contributions wage
from 1 to 9 years (inclusive)	50%
from 10 to 19 years (inclusive)	55%
from 20 to 29 years (inclusive)	60%
above 30 years (inclusive)	65%

The unemployment benefit decreases over time. Since 1 January 2020, the benefit amount decreases after every two months (previously after every three months). The following share of the full benefit is paid depending on duration of the unemployment:

- first 2 months of unemployment: 100% of the full benefit,
- for the 3 and 4 months of unemployment: 75% of the full benefit,
- for the 5 and 6 months of unemployment: 50% of the full benefit;
- for the 7 and 8 months of unemployment: 45% of the full benefit.

2.1.3. *Benefit duration*

Since 1 January 2020, the maximum unemployment benefit payment period is 8 months (previously 9 months).

After expiration of unemployment benefit a person can apply for next unemployment benefit only after unemployment insurance contributions have been made for not less than 12 months in time period of 16 months.

2.1.4. *Means test*

The benefit is not means-tested.

2.1.5. *Tax treatment*

The benefit is not taxable.

2.1.6. *Interactions with other components of the tax-benefit system*

One cannot receive the parental benefit and unemployment benefit at the same time. Payment of the parental benefit is suspended for the duration of the unemployment benefit. Payment of the unemployment benefit is suspended for the duration of the sickness benefit.

social security contribution ceiling (see

Figure 1, Panel A).

2.1.7. Combining benefit receipt and employment/starting a new job

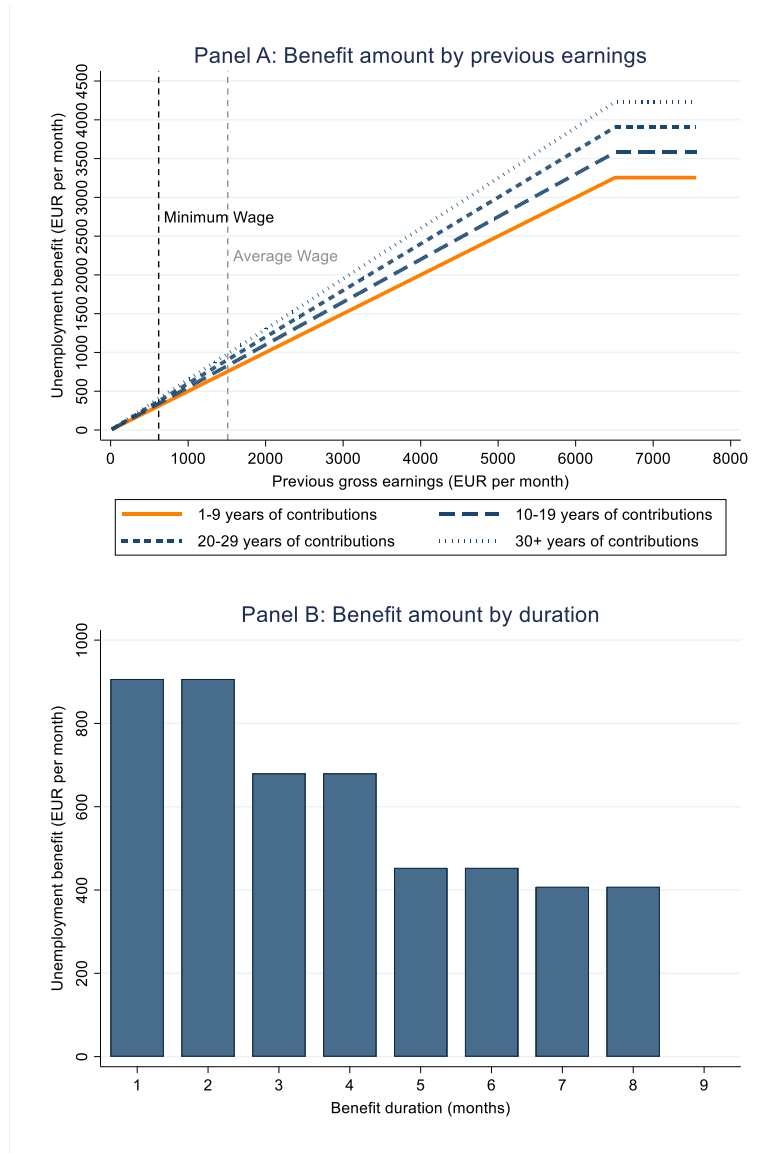
The payment of unemployment benefit shall be temporary suspended if an unemployed person obtains the status of an employee twice in a 12-month period for a time period of up to 60 days in total. The benefit is terminated in case of a longer employment duration.

2.1.8. Indexation

Unemployment benefit amount depends on claimant's previous average insurance contribution wage. Hence, the amount changes with claimant's previous earnings and is not regularly indexed. There are no other monetary parameters subject to regular indexation in this policy.

Figure 1. Unemployment benefit

50-year old single person without children



Note: Benefit rules do not depend on family structure. A person is assumed to have at least 12 months of previous employment record. Panel A shows benefit amount in the 2nd month of benefit receipt for different levels of previous earnings and contribution records. Panel B shows benefit amount over time for a person with previous earnings at the average wage and employment record of 22 years.

Source: OECD Tax-Benefit Model.

2.2. Unemployment assistance

OECD note: In many OECD countries, jobseekers who do not qualify for Unemployment Insurance (UI – Section 2.1), or whose entitlement to UI is low or has expired, can claim Unemployment Assistance (UA – this section) and/or Social Assistance benefits (SA – Section 3). These UA and SA benefits have different purposes (and reach different target groups). For instance, while the main purpose of UA is to encourage the labour market reintegration of jobseekers who have exhausted or are not eligible to the standard UI benefit, the purpose of SA programmes is to provide an acceptable standard of living for families unable to earn sufficient incomes from other sources. Conditions for UA typically include requirements to register with the public employment service and participate in active job search in a similar way as for UI. This is not always the case for SA benefits, for which low income is the key entitlement criterion and activation requirements exist only for those who are capable of work.

Latvia does not provide a national/local Unemployment Assistance programme. However, Latvia provides Social Assistance programme that also covers persons in need of assistance due to unemployment (as described in Section 3.1.).

3. Social assistance and housing benefits

This Section describes two social assistance benefits that fall within the scope of the OECD tax-benefit model: Guaranteed minimum income benefit (Section 3.1.) and Housing benefit (Section 3.2. The Law on Social Services and Social Assistance establishes principles for the provision and receipt of these benefits and defines minimum income thresholds for these and other provisions (see Section 33 of the Law) as well as conditions for evaluating the material situation (see Section 36 of the Law).⁷

Since 1 January 2021, the income thresholds are⁸:

(1) The **guaranteed minimum income** (GMI) threshold is EUR 109 for the first or only person in a household and EUR 76 for other persons in the household.

(2) The income threshold of a **needy household** is EUR 272 for the first or only person in a household and EUR 190 for other persons in the household.

(3) Each local government is entitled to determine the income threshold of a **low-income household** not higher than EUR 436 for the first or only person in a household and EUR 305 for other persons in the household, but not lower than the income threshold of a needy household laid down in the previous paragraph.

Riga municipality defines thresholds of a low-income household in line with the maximum amounts suggested above.⁹

The Regulations of the Cabinet of Ministers “Regarding the Assessment of the Material Situation of a Household and Receipt of Social Assistance” specify the procedures for the assessment of the material situation of a household and receipt of social assistance; the procedures for calculating, granting and disbursing the guaranteed minimum income benefit and the housing allowance; and the procedures for determining the status of a needy and low-income household.¹⁰

In addition, on 29 January 2022 the Law on Measures to Reduce Extraordinary Increases in Energy Prices came into force (later several amendments were developed and approved by the Government).¹¹ It provides various support measures for the population during the cost-of-living crisis. Also, the government offered Specific provisions for the electricity

⁷ The Law on Social Services and Social Assistance: <https://likumi.lv/ta/id/68488-socialo-pakalpojumu-un-socialas-palidzibas-likums>

⁸ From 1 July 2023, the thresholds are increased. For more information see: [Minimālo ienākumu līmenis | Labklājības ministrija \(Im.gov.lv\)](https://www.im.gov.lv/en/ministry/department/department-1). In the model for 2023 the new rates are not covered as the policy reference date is 1 January.

⁹ Binding regulations of the Riga City Council “On recognition of the household as poor or low-income and social assistance benefits in the Riga City Municipality”: <https://likumi.lv/ta/id/324308-par-majsaimniecibas-atzisanu-par-trucigu-vai-maznodrosinatu-un-socialas-palidzibas-pabalstiem-rigas-pilsetas-pasvaldiba>

¹⁰ Regulations of the Cabinet of Ministers “Regarding the Assessment of the Material Situation of a Household and Receipt of Social Assistance”: <https://likumi.lv/ta/id/319717-noteikumi-par-majsaimniecibas-materialas-situacijas-izvertesanu-un-socialas-palidzibas-sanemšanu>

¹¹ Law on measures to reduce the extraordinary increase in energy resource prices: <https://likumi.lv/ta/id/329532-energoresursu-cenu-arkarteja-pieauguma-samazinajuma-pasakumu-likums>.

trade service for the protected customers¹². These measures are described in Annex B. *These measures are related to expenses on energy and are outside the scope of the model.*

3.1. *Guaranteed minimum income benefit (Garantētā minimālā ienākuma pabalsts)*¹³

Variable name: [SA]

This is a non-contributory benefit, means-tested and not taxable.

Since 1 January 2021, GMI level is set at the national level and is the same for all municipalities. Municipalities cannot set higher levels of GMI. However, they can set up other types of support for specific groups of clients.

3.1.1. *Eligibility conditions*

The benefit is granted to a household or a separately living person whose income does not reach the amount of the nationally defined GMI and who does not own any funds or property beyond the limits defined in the law. GMI benefit is paid on the basis of net income and assets test.

Since 1 January 2021, a person/family no longer needs to correspond to the “needy household” status to be eligible to GMI. However, taking into a consideration that the GMI level is lower than the “needy household” income level, all beneficiaries of GMI benefit have also rights to receive “needy household” status.

Adult claimants of GMI benefit have an obligation to fulfil the duties of participation prescribed in the Law On Social Security and Law on Social Services and Social Assistance.

3.1.2. *Benefit amount*

GMI benefit is calculated as a difference between GMI level for a household or separately living person and their income (see GMI amounts in the beginning of Section 3.).

The benefit is calculated according to the formula:

$$P = GMI^1 + GMI^2 \times n - I,$$

Where P - Guaranteed minimum income benefit;

GMI¹ - Guaranteed Minimum Income level for the first member of the household or separately living person set by the Cabinet of Ministers;

GMI² - Guaranteed Minimum Income level for the second member of the household set by the Cabinet of Ministers;

n – Number of additional household members (excluding the first one);

I - Net income of the household.

¹² See Regulations Regarding the Trade Service of a Protected Customer: <https://likumi.lv/ta/id/323662-aizsargata-lietotaja-tirdzniecibas-pakalpojuma-noteikumi>

¹³ The description depicts situation as on 1 January 2023, please note that Amendments to The Law on Social Services and Social Assistance are to come into force in 1 July 2023 (please see: <https://likumi.lv/ta/id/340389-grozijumi-socialo-pakalpojumu-un-socialas-palidzibas-likuma>)

In cases of refusing to fulfil duties of participation, a total amount of GMI benefit reduces by the part of the adult who has refused.

GMI benefit can be paid in cash or in kind.

3.1.3. *Benefit duration*

Benefit is granted for the period of 3 or 6 month. If the conditions persist, the beneficiary can apply repeatedly. The benefits is paid once per month.

If during the period when household has obtained GMI benefit there have taken place changes in the family structure, income level or social status, a social service office has to make evaluation repeatedly. The decision on the assignment of GMI benefit granting shall be taken by the social service office within one month.

GMI benefit is granted to a family for a period of one month, if family's income level complies with the level defined by legislation, but other criteria are not satisfied.

3.1.4. *Means test*

To be eligible for GMI benefit, a household has to satisfy income and asset tests.

Income test

When estimating the assistance amount, all net income of a household is taken into account. *In the model this includes earnings from work, unemployment benefit (see Section 2.1. , childcare benefit (Section 4.3.) less employee social security contributions (Section 7.1.) and income taxes (Section 8).*

The following benefits are not considered as income:

- principal amount and interest payment of the loan granted for the purchase of the only home;
- the part of the income obtained from the expropriation of one's property, which is used for the purchase of the only home;
- the amount that a person pays or receives as maintenance for a child and which does not exceed the minimum amount of maintenance for each child established in the state (see Section 4.2.), except in the case, when it is paid on the basis of a court decision;
- family state allowance (see Section 4.1.) and supplements to this allowance;
- allowance for caring for a disabled child, allowance for a disabled person who needs care;
- allowance for the use of an assistant;
- allowance for compensating transport expenses for a disabled person who has difficult movement;
- benefits for a child with celiac disease;
- benefits in the event of the birth of a child and the death of a person;
- social guarantees for orphans and children left without parental care after the end of out-of-home care;
- student loans, scholarships for persons studying, up to the minimum monthly salary;
- income of a child under the age of 18 from paid work or self-employment up to the amount of the minimum monthly salary;
- financial support provided to a person for participation in active employment measures, excluding activities with the conclusion of employment contracts;
- paid temporary public works;
- grant for the monthly income of an unemployed person for starting commercial activities and self-employment;

- compensation for additional expenses in connection with an accident at work or occupational disease;
- compensation for a victim in criminal proceedings;
- compensation for donating blood or blood components;
- refund of overpaid personal income tax;
- funds obtained from charitable funds and material benefits obtained as a result of social campaigns for a specific purpose;
- the one-time financial support for a refugee or a person who has obtained an alternative status;
- other previously disbursed municipal social assistance benefits and municipal voluntary initiative benefits specified in Law of Social Services and Social Assistance.

Asset test

The asset test affects the eligibility for the GMI benefit. Social workers of the municipality's Social Service Office are responsible for the assessment of the asset test.

The law determines the types of property and assets that are not taken into account in the means test:

- real property or a part thereof which is used as dwelling of the household;
- the land property, which together with the land within the composition of the immovable property referred before, does not exceed 5 ha for the family (person), and also holding's facilities (for example, garage, barn, granary, shed, cellar, bath-house, garden-house) or not more than two holding's facilities on the rented land functionally belonging to such immovable property;
- the child's property and cash savings;
- real estate or a part of it belonging to a person living in the applicant's household where have declared their place of residence and live first-degree adult relatives of the applicant who do not own other real estate;
- the housing furniture, appliances as well as clothes and household objects which belong to the person (household) at the time of the claim;
- movable property – mechanical vehicles – no more than one unit (e.g. passenger car) for the family (person) or two vehicles (e.g. motor vehicles) for families with children;
- shares which cannot be disposed of due to pending insolvency proceedings;
- accumulated savings up to EUR 272 per household (including in current accounts).

Any other assets beyond the exclusions listed above will be an obstacle to receiving the benefit.

The Law on Social Services and Social Assistance states that benefits can be granted for one calendar month if the household's income does not exceed the income thresholds specified in Article 33 of this Law, but there is a detectable non-compliance with any of the provisions of the law or the regulations of the Cabinet of Ministers for the receipt of social assistance or poor and low-income documents required for granting household status. Household persons are obliged to cooperate with the social service of the municipality and other institutions for the prevention of the mentioned inconsistencies. In certain cases, there is a possibility that the social worker, justifying the reasons in the client's case, may extend the deadline by a few more months, depending on the situation.

Also, according to the Law, there is no evaluation of material resources in situation of crisis (see Section 5 of the Law).

Main residence:

The only immovable property of the household, where the applicant has declared his place of residence and lives and the other persons who share a household with the applicant, and the necessary movable property of the house, the equipment necessary for work and education (household equipment, household goods, clothing, etc.) are excluded from the assessment.

Other immovable properties:

In addition, the other real estate or its part that belongs to a person living in the applicant's household and where the first-degree relatives of the claimants (who do not own other real estate) have declared their place of residence and live is not considered as property.

However, if the other real estate is rented to "strangers", it will be an obstacle to receiving municipal support. In addition, it will be considered as a resource for obtaining additional income in the form of rent.

Social workers are expected to exercise some discretion when assessing material situation of the claimant and evaluate each case individually. For example, if the other apartment or house owned by the person is in a condition unsuitable for living, perhaps obtained through a gift or inheritance and at the given moment it is not possible to either sell it or bring it into a condition suitable for living, then the specific social situation must be described by the client in the case to make a positive decision.

Movable assets:

In the declaration, the person must declare securities he owns, shares, bonds, promissory notes, government bonds, privatization certificates, etc. and the income obtained from them during the reporting period.

Personal savings at the 2nd pension level are not considered savings.

Regarding the 3rd pension level, from the age of 55, its member can receive the entire accumulated capital. The law "On private pension funds" also provides for the possibility to receive the accumulated pension capital from an even earlier age. The accumulated capital is the property of a private person, and it can be used by a person at the legal age for his needs, including basic needs.

The capital shares or property that has been banned by a bailiff or other competent institution from handling it, or that is in the process of discharge from debt, insolvency or liquidation, or from which no income has been generated during the last three-month period of suspension of economic activity, are not considered property.

A person may own capital shares in a limited liability company or a joint-stock company if they cannot be handled due to insolvency proceedings, or if no income has been generated in the last three-month period because economic activity has been suspended.

The model assumes that the assets are sufficiently low and the asset test is satisfied.

3.1.5. Tax treatment

The benefit is not taxable.

3.1.6. *Interaction with other components of the tax-benefit system*

GMI benefit receipt doesn't affect the right of a person to claim other social assistance benefits. GMI benefit is included in the means test for housing benefit.

3.1.7. *Combining benefit receipt and employment/starting a new job*

GMI benefit receipt can be combined with employment if the means test and other eligibility conditions are satisfied.

In order to improve coverage of social assistance benefits and introduce additional incentives to motivate the beneficiaries of social assistance to get a paid job (stimulation of making work pay), the Amendments to the Law on Social Services and Social Assistance came in force as of 9 February 2017. The amendments introduced disregards on net earnings (to the extent of the net monthly minimum wage) for 3 months after starting employment.

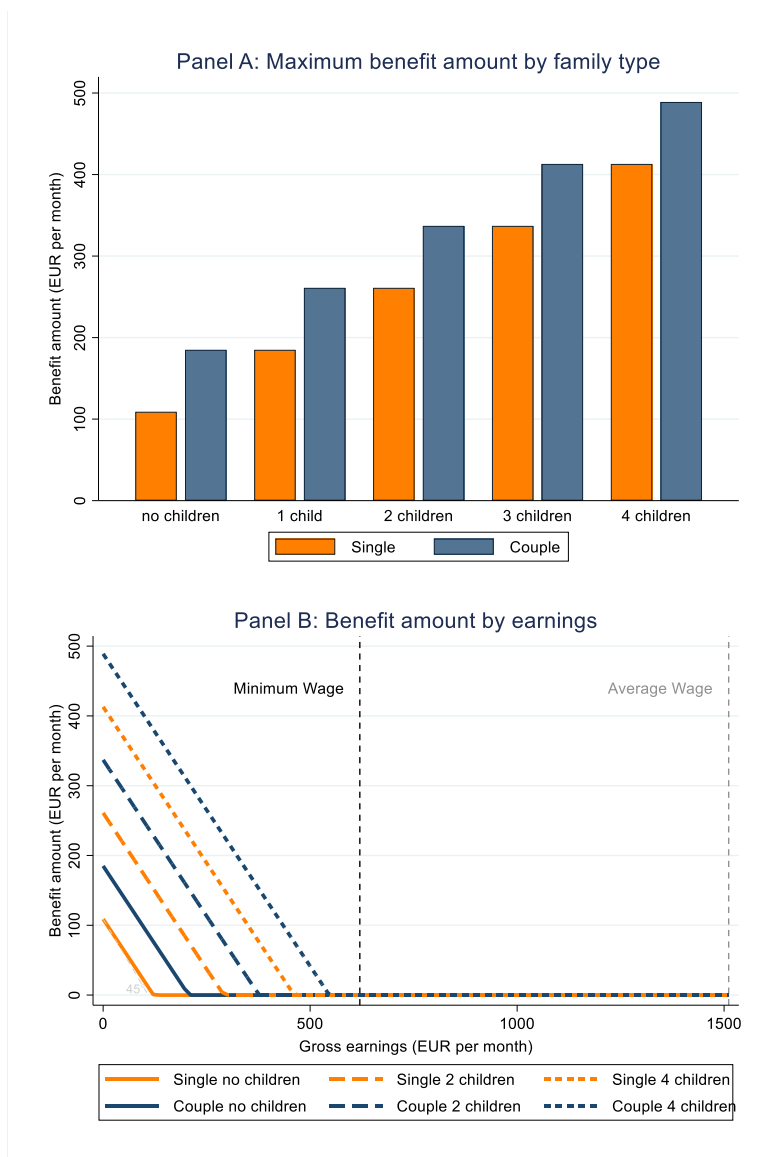
3.1.8. *Indexation*

On 1 January 2022, the GMI level is not automatically indexed, i.e. there is no automatic adjustment to inflation. However, in the determination of GMI, there is a transition from the numerical value of the minimum income threshold in euro terms to the percentage value of the 'median minimum income', namely 20% of the median equivalised household disposable income¹⁴. The new minimum income thresholds will come into force from 1 July 2023 and starting from 2024 it will be reviewed on regular basis every January.

¹⁴ Median equivalised household disposable income is computed based on the EU-SILC data and published annually by the Central Statistical Bureau of Latvia. Equivalence scale used is 1 for the first household member; 0.7 for the second and each next. On 1 July 2023, the GMI level is computed based on the median calculated based on 2020 incomes reported in EU-SILC survey (that is EUR 125 for the first person and EUR 87.50 for each next). On 1 January 2024, the amounts are based on 2021 incomes (that is EUR 137 for the first person and EUR 96 for each next). See the GMI levels for 2023 and 2024 here: [Minimālo ienākumu līmenis | Labklājības ministrija \(lm.gov.lv\)](#).

Figure 2. Guaranteed minimum income benefit

40-year old single person and couple with or without children



Note: The results assume no receipt of unemployment benefits as well as other benefits, which are usually included in the means test for GMI benefit. Panel A shows maximum benefit amount for a jobless family with no income. Panel B shows the reduction in benefit amount if one adult starts working. Horizontal axis shows gross earnings. The 45° line shows how the benefit of a single person would have been withdrawn if it would be reduced by 1 EUR for every gross EUR earned. The actual withdrawal rate is slower because the means test is based on net income. The benefit decreases by 1 EUR for every net EUR earned.

Source: OECD Tax-Benefit Model.

3.2. *Housing benefit (Mājokļa pabalsts)*

Variable name: **[HB]**

This is a non-contributory benefits, means-tested and not taxable.

Until 30 June 2021, the eligibility rules, amounts and payment procedures for housing benefit (*Dzīvokļa pabalsts*) varied by municipality. For policy years up to 2021 (including), the OECD tax-benefit model simulated housing benefit rules for Riga municipality.¹⁵

Since 1 July 2021, national regulations¹⁰ set basic principles for calculation and granting of housing benefit (renamed “*Mājokļa pabalsts*”), which are similar to the previous Riga municipality model. The new regulations set the formula for calculating the housing benefit amount, income testing procedure and minimum norms of housing expenditure. However, municipalities still can set additional eligibility rules, more favourable maximum amounts and payment procedures. Since policy year 2022, the OECD tax-benefit model simulates the new national rules as well as additional rules stipulated by Riga municipality.⁹

3.2.1. *Eligibility conditions*

According to the national rules, the rights to housing benefits are granted to households or separately living persons being unable to meet basic needs. To be eligible, the sum of the GMI thresholds for the household (see Section 3.1.) and the actual housing expenses (not exceeding the national and municipality regulations) should be below the total income of the household.

Municipalities can set additional eligibility criteria for housing benefit. In Riga municipality, a person/family has to submit documents for assessment of their material situation. This procedure determines both eligibility to social benefits as well as the status of a needy and low-income household. However, the “low-income household” status itself is no longer required to be eligible to the housing allowance.

3.2.2. *Benefit amount*

From 1 July 2021, the Law on Social Services and Social Assistance⁷ (hereinafter - the Law), Section 35, Paragraph three of the Law provides that the amount of housing benefit shall be calculated taking into account the following expenses:

- 1) for the use of living space (rent, expenses for mandatory management activities);
- 2) for services related to the use of the living space (heat energy for the provision of heating and hot water, electricity, water, natural gas, provision of sewerage, management of municipal waste), if they are not included in the rent or necessary expenses for mandatory management activities;
- 3) expenses related to telecommunications services and the internet, as well as expenses regarding the installation and verification of water meters.

In its turn, Section 35, Paragraph four of the Law stipulates that the amount of housing benefit is calculated as the difference between the sum of the GMI thresholds for a

¹⁵ Riga City Council Binding Regulations “On recognition of a family or a person living separately as needy or low-income and social benefits in Riga City Municipality” <https://likumi.lv/ta/id/254202-par-gimenes-vai-atseviski-dzivojosas-personas-atzisanu-par-trucigu-vai-maznodrosinatu-un-socialajiem-pabalstiem-rigas-pilsetas-...>

household and the expenditure on housing and total household income specified in regulatory enactments.

The national regulations¹⁰ specify the formula to be used for calculating the housing benefit:

$$P = (GMI^1 + GMI^2 \times N) + K - I \quad , \text{where}$$

P - the amount of the allowance;

$(GMI^1 + GMI^2 \times N)$ - the sum of the thresholds of the guaranteed minimum income for the household;

K - the amount of actual expenditures indicated in bill payments related to the use of the housing (not exceeding the expenditures for the use of the housing laid down the national or local government regulations);

I - total income of the household (including the amount of the guaranteed minimum income benefit received in the relevant month).

The model assumes that a family rents accommodation in the private rental market. The model considers only housing expenditure on rent.¹⁶

The national regulations provide the following minimum norms of expenditure items for calculating the housing allowance for rent:

- The area of the housing taken into consideration for the payment of the expenses of renting the residential premises, managing and heating of the residential house is:
 - 32 m² for one person in the household and 18 m² for each additional person in the household;
 - in certain cases the entire area of the housing can be considered (*such cases are not covered in the model*);
- Rent and management of residential premises in accordance with the conditions of the concluded tenancy agreement or the monthly amount indicated in the utility bill, but not more than EUR 5 per 1 m², unless the local government council has determined a different amount.

The regulations of Riga City Council define higher normative expenses on rent (*these amounts are assumed in the model*):⁹

- The benefit covers the rent as specified in the lease agreement, but not more than:
 - EUR 8 per m² per month for a dwelling with a total area of up to 32 m²;
 - EUR 7 per m² per month for a dwelling with a total area over 32 m² and up to 45 m²;
 - EUR 5 per m² per month for a dwelling with a total area over 45 m².

The model assumes the maximum dwelling size of 70 m² for all family types.

Housing benefit can be paid in cash or in kind.

¹⁶ In the standard OECD tax-benefit calculations, the rent is assumed to be equal 20% of the Average Wage for all household types.

In accordance with Article 13, Part 2.1 of the Law on Measures to Reduce the Extreme Increase in Energy Prices (see Annex B), when calculating the amount of the housing benefit, for the period from 1 October 2022 to 31 May 2023, a coefficient of 3 is applied to the threshold amount of the guaranteed minimum income for the household. This means, the formula for calculating the benefit amount is:

$$P = (GMI^1 + GMI^2 \times N) * 3 + K - I \quad , \text{where}$$

P - the amount of the allowance;

$(GMI^1 + GMI^2 \times N)$ - the sum of the thresholds of the guaranteed minimum income for the household;

K - the amount of actual expenditures indicated in bill payments related to the use of the housing (not exceeding the expenditures for the use of the housing laid down the national or local government regulations);

I - total income of the household (including the amount of the guaranteed minimum income benefit received in the relevant month).

This formula is used in the model for policy year 2023 as the policy reference data is 1 January 2023.

3.2.3. *Benefit duration*

Housing benefit is granted for the period of 3 or 6 month. If the conditions persist, the beneficiary can apply repeatedly. The benefit is paid at least once in three months, except for the housing allowance for the purchase of solid fuel which may be disbursed as one or several payments during the calendar year.

3.2.4. *Means test*

When estimating the assistance amount all net income of household is taken into account. The types of income excluded from calculation of housing benefit are the same as in case of GMI benefit (see Section 3.1.4.).

3.2.5. *Tax treatment*

Benefits are not taxable.

3.2.6. *Interaction with other components of the tax-benefit system*

It is possible to receive the housing benefit together with other social assistance benefits.

3.2.7. *Combining benefit receipt and employment/starting a new job*

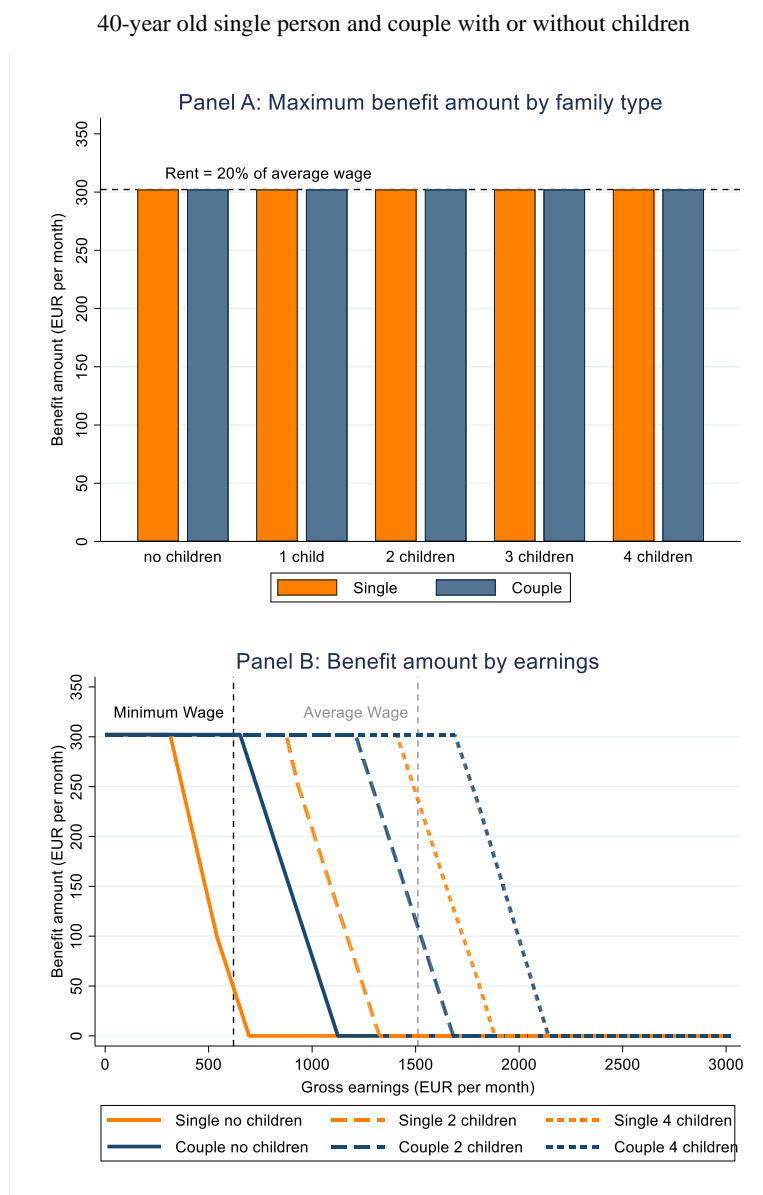
Housing benefit receipt can be combined with employment if the means test and other eligibility conditions are satisfied.

In order to improve coverage of social assistance benefits, including housing benefit, and introduce additional incentives to motivate the beneficiaries to get a paid job (stimulation of making work pay), the Amendments to the Law on Social Services and Social Assistance came in force as of 9 February 2017. The amendments introduced disregards on net earnings (to the extent of the net monthly minimum wage) for 3 months after starting employment.

3.2.8. Indexation

For the indexation of the GMI level and income thresholds of a needy or low-income household, see Section 3.1.8. Other monetary values used in the calculation of the benefit, e.g. ceilings on normative expenses, are not indexed automatically but are adjusted on ad-hoc basis according to the economic situation.

Figure 3. Housing benefit

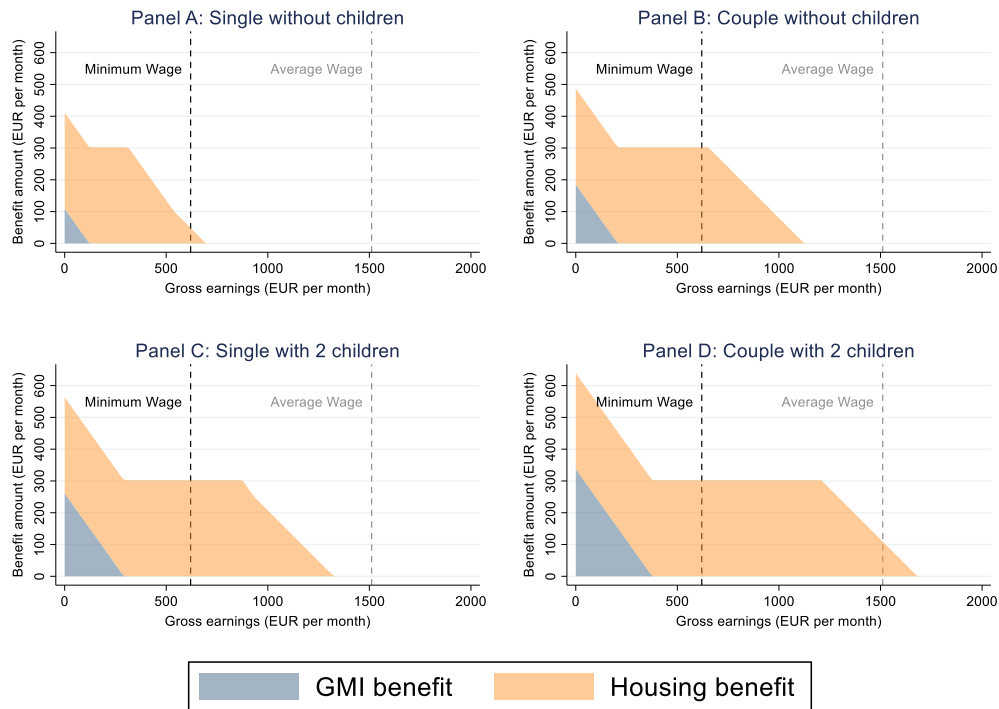


Note: A family resides in Riga. The results assume that the family receives GMI benefit, but no unemployment benefits or other benefits, which are usually included in the means test for GMI and housing benefits. Panel A shows maximum benefit amount for a jobless family with no income. Panel B shows the reduction in benefit amount if one adult starts working. Horizontal axis shows gross earnings, whereas the means test is based on net income. The benefit decreases by 1 EUR for every net EUR earned.

Source: OECD Tax-Benefit Model.

Figure 4. Guaranteed minimum income and housing benefits

40-year old single person and couple with or without children



Note: A family resides in Riga. The results assume no receipt of unemployment benefits as well as other benefits, which are usually included in the means test for GMI and housing benefits. The figure shows the reduction in benefit amounts if one adult starts working. Horizontal axis shows gross earnings of the first adult. The second adult is assumed to be out of work.

Source: OECD Tax-Benefit Model.

4. Family benefits

4.1. Family state benefit (*Ģimenes valsts pabalsts*)

Variable name: [FB_main, FB_supp]

This is a non-contributory benefit, not means-tested and not taxable.

4.1.1. Eligibility conditions

The family state benefit shall be paid for each child raised in the family from the date of reaching the age of one to the age of 16, as well as for a child aged 16 to 20 if he or she is training in a general education or vocational education institution and has not entered into a marriage. The benefit is paid directly to the child after they reach 18 years of age, if prior to that they have been in out-of-family care.

A State family benefit shall be paid to a person who is raising a disabled child from the day when disability has been determined for the child, but not longer than until the day when the child has attained 20 years of age regardless of whether the child attends an educational institution.

4.1.2. Benefit amount

Since 1 January 2022, the amount of the family state benefit depends on the number of children actually raised in the family. One of the spouses, on the basis of the mutual consent of the other spouse, may receive a family state benefit for all children who are jointly reared, not only for their children.

The amount of the family state benefit is:

- for one child - EUR 25;
- for two children – EUR 100 (EUR 50 for each child);
- for three children - EUR 225 (EUR 75 for each child);
- for four or more children – EUR 100 for each child.

4.1.3. Benefit duration

As long as the eligibility conditions hold.

4.1.4. Means test

The benefit is not means-tested.

4.1.5. Tax treatment

The benefit is not taxable.

4.1.6. Interaction with other components of the tax-benefit system

The benefit is universal and can be received together with any other benefit.

4.1.7. Combining benefit receipt and employment/starting a new job

The benefit is universal; employment doesn't affect benefit receipt.

4.1.8. *Indexation*

No automatic adjustment. Following a political decision, the amount of the benefit is reviewed taking into account the budget of the State, the economic situation and the increase of wages of employees.

4.2. *Maintenance Guarantee Fund (Uzturlīdzekļu garantiju fonds)*

Variable name: `[lp_alim]`

This is a non-contributory benefit, not means-tested and not taxable.

4.2.1. *Eligibility conditions*

The Administration of the Maintenance Guarantee Fund (which is under the responsibility of the Ministry of Justice) disburses child support (minimum maintenance amount) to children in case if one of the parents does not fulfil his/her obligations towards the child and does not ensure the minimum amount of child support. Means of subsistence (alimony) is granted to children till they reach the age of 21 (if child attends basic, general or professional educational school) in the event of their parent's divorce.

4.2.2. *Benefit amount*

The minimum amount of payment is determined by the Cabinet of Ministers¹⁷:

- 25% of the minimum monthly wage (i.e. EUR 155 per month in 2023) for each child aged below 7;
- 30% of the minimum monthly wage (i.e. EUR 186 per month in 2023) for each child aged 7-17.

4.2.3. *Benefit duration*

As long as eligibility conditions hold.

4.2.4. *Means test*

Not means-tested.

4.2.5. *Tax treatment*

Non-taxable.

4.2.6. *Interaction with other components of the tax-benefit system*

The benefit is universal and can be received together with any other benefit.

4.2.7. *Combining benefit receipt and employment/starting a new job*

Employment doesn't affect benefit receipt.

¹⁷ See here: <https://likumi.lv/ta/id/254128-noteikumi-par-minimalo-uzturlidzeklu-apmeru-bernam>

4.2.8. *Indexation*

The benefit amount is a percentage of minimum monthly wage and is adjusted in line with changes in the minimum wage (see Section 1.).

4.3. *Childcare benefit (Bērna kopšanas pabalsts)*

Variable name: `[childcare_benefit]`

This is a non-contributory benefit, not means-tested and not taxable.

4.3.1. *Eligibility conditions*

The childcare benefit is given to all families with a child under 2 years old. The benefit can't be received simultaneously with maternity leave benefit.

4.3.2. *Benefit amount*

The amount of childcare benefit is:

- for persons who are raising children aged under 1.5 years: EUR 171 per month per child;
- for persons who are raising children aged between 1.5 to 2 years: EUR 42.69 per month per child.

4.3.3. *Benefit duration*

As long as eligibility conditions hold.

4.3.4. *Means test*

Not means tested.

4.3.5. *Tax treatment*

Non-taxable.

4.3.6. *Interaction with other components of the tax-benefit system*

The benefit is universal and can be received together in any other benefit but is counted as income in the means tests for social assistance and housing benefit. The benefit cannot be received simultaneously with maternity leave benefit.

4.3.7. *Combining benefit receipt and employment/starting a new job*

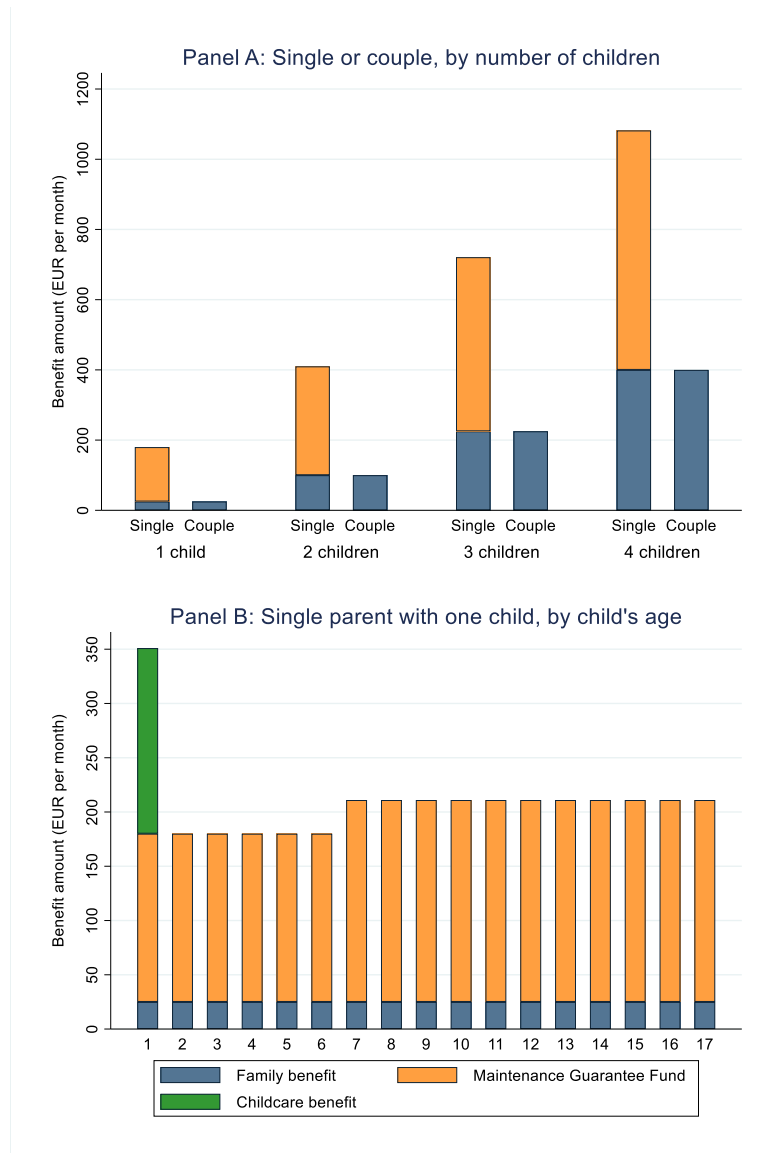
Both working and non-working parents can receive childcare benefit.

4.3.8. *Indexation*

No automatic adjustment. Following a political decision, the amount of the benefit is reviewed taking into account the budget of the State, the economic situation and the increase of wages of employees.

Figure 5. Family benefits

40-year old single person or couple with children



Note: Family benefits do not depend on income. All children are assumed to satisfy conditions for being considered a dependent child. In Panel A, children's ages are 4, 6, 8, and 10. In Panel B, child's age varies from 1 to 17 years old. The amount of the benefit corresponds to the month when a person has just turned 1, 2, ... 17 years old.

Source: OECD Tax-Benefit Model.

5. Net costs of Early Childhood Education and Care

The **reference date** for the policy rules described in this section is **1 January 2023**.

Children up to 7 years of age participate in a pre-school education programme. Depending on the state of health and psychological preparedness of children and according to the parents' wishes and decision of the family doctor, the mastery of the pre-school education programme may be prolonged or shortened by one year. Participation is compulsory for 5- and 6-year-old children and municipalities must provide a place from this age, but children can start attending public kindergartens from the age of 18 months. The Ministry of Education and Science provides state earmarked subsidies to municipalities and private education institutions for teachers' remuneration in the pre-school education (5- and 6-year-old children). Children start attending mandatory primary school at the age of 7.

5.1. Gross childcare fees

Variable name: `[LVcc_cost]`

In public kindergartens (*the example considered in the model*), there are no tuition costs but parents have to pay for children's meals. These fees are set by each municipality. In full-time groups, meals are usually provided three times a day (breakfast, lunch and afternoon snacks) at a low cost. On 1 January 2023, meal fees are approximately EUR 2 to 4.00 per day.

On 1 January 2023 in Riga, the maximum fee for catering services in preschool educational institutions is:¹⁸

- EUR 4.00 per day in an institution with a 12-hour work schedule (serving breakfast, lunch, and afternoon snacks)
- EUR 5.00 per day in an institution with a 24-hour work schedule serving (breakfast, lunch, afternoon snacks, and dinner).

The model simulates maximum meal fees paid in Riga in a preschool with a 12-hour work schedule.

Meal fees are not indexed automatically but are reviewed according to the economic situation on ad-hoc basis.

Preschools may also charge fees for additional services, for instance, foreign language classes for children. *Such fees are not covered in the model.*

There are also private kindergartens and child-minding services, which are typically more expensive. *Fees for private services are not considered in the model.*

5.1.1. Discounts for part-time usage

If a child stays in an institution for only part of the day, the fee that parents have to pay for meals remains the same. There are different payment rules in private institutions.

¹⁸ On 1 September 2022 the decision of the Riga City Council No. 1462 "On student catering" came into force (available [here](#)). From 1 September 2023, the Riga City Council plans to increase the maximum catering fee in an institution with a 12-hour work schedule to EUR 4.30 per day. *This higher fee will be added to the model in policy year 2024 since the policy reference date is 1 January.*

5.2. Fee discounts and free provision

Public childcare provision is free. Municipalities may reduce the fees for meals for children from low-income families, and most of those in rural areas do. In Riga, from 1 October 2022, full meal costs are covered only for families with “social status”, including poor and low-income families (see the beginning of Section 3. for definition of poor and low-income families) and families with 3+ children. Families without “social status” have to co-finance half of the costs, i.e. EUR 2 per day on 1 January 2023. Since 1 September 2023 the necessary co-payment will increase to EUR 2.15 per day. *This higher fee will be added to the model in policy year 2024 because the policy reference date is 1 January 2023.*¹⁹

Additional support is offered to parents of children who do not have access to public childcare due to availability. This support is paid directly to private education institutions which particular child is attending (*not covered by the model*).

Between 2013 and 31 May 2016 financial support was provided by both central and local governments for parents of children aged 1.5 - 4 years and who are not benefiting from public childcare. Since December 2015, municipalities are responsible to provide co-financing for all children who started pre-school education in the private education institutions due to the long waiting lists. Since 1 January 2017, municipal support is differentiated for children aged 1.5 to 4 and for children 5-6 years old.

The local governments do not have a binding requirement to ensure co-financing for children who are using child minding (nanny) services, however, in total, in 2023, 16 municipalities according to their budgetary possibilities, have determined the amount of support for children using childcare services.

In 2023, average municipal support for children from 1.5 to 4 years is EUR 307.43 per child per month, and for children undergoing compulsory pre-school education - EUR 216.44 per child per month. The average municipal support for child minding (nanny) services is EUR 204.74 per child per month.

In Riga, the amount of support in 2023 for children from 1.5 to 4 years is EUR 328.54 per child per month and for children undergoing compulsory pre-school education - EUR 242.48 per child per month. Riga support for children who are using child minding (nanny) services is EUR 194.81 per child per month.

5.3. Child-care benefits for formal centre-based care

Variable name: `[cc_benefit]`

There are no special childcare benefits to parents of children in public kindergartens.

5.4. Child care allowance for children not using child care centers

None.

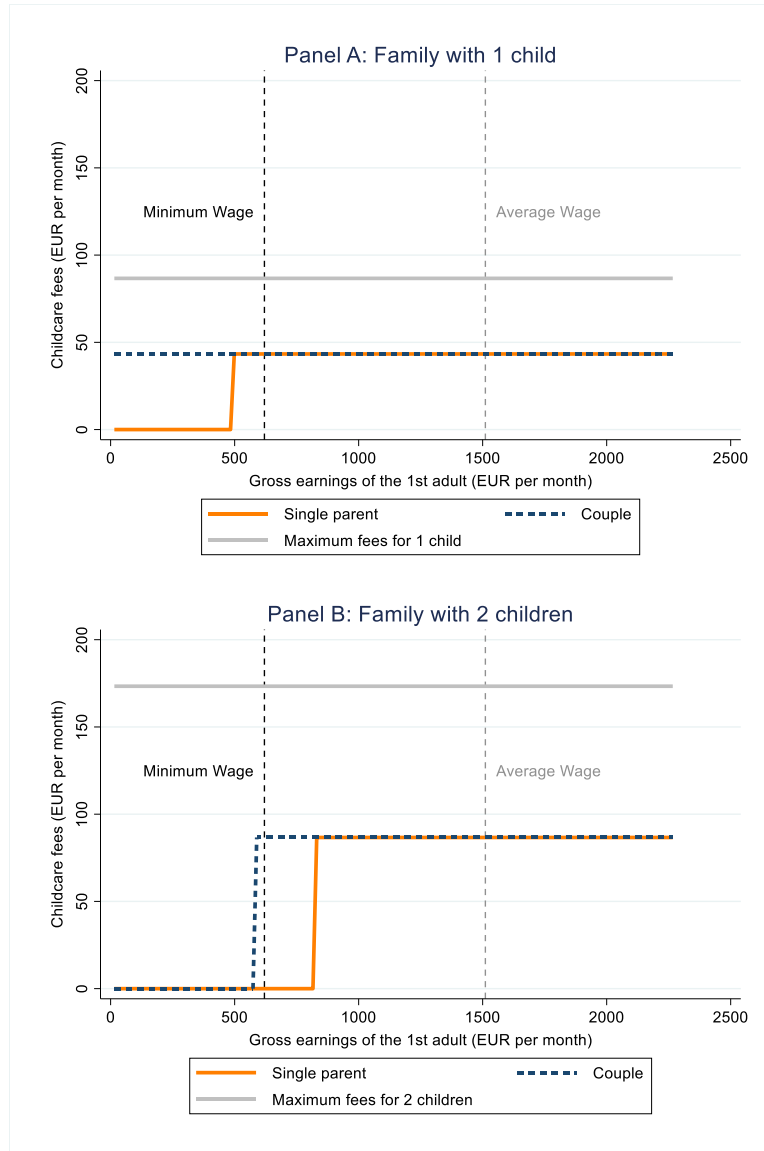
¹⁹ Before 1 October 2022, all families with children in municipality preschools were eligible for free meals. The decisions of the Riga City Council "For students whose catering costs are covered by the Riga city municipality" (No. 4640 in force from 1 January 2017 to 1 September 2019 and No. 2321 in force from 1 September 2019 to 1 September 2022) are available [here](#).

5.5. Tax concessions for childcare expenditures

None.

Figure 6. Childcare fees paid by parents

40-year old single person or couple with children



Note: Both parents are working full time and use public childcare for all children for the full day. Children are 2 and 3 years old. Families live in Riga.

Source: OECD Tax-Benefit Model.

6. In-work benefits

OECD note: This section provides information on employment-conditional (“in-work”) benefits for employees, i.e. benefits whose eligibility is conditional on the following key requirements: 1) being regularly employed (in either the private or public sector); 2) working a certain number of hours and/or earning more than a certain minimum. This definition notably excludes ‘workfare’ programmes and related ‘work-first’ policies that make out-of-work benefits conditional on participation in work activities.

This section provides information also on *one-off* and/or *temporary* payments for benefit recipients who are out of work and make a transition into employment. These type of benefits are referred to as *transitional “into-work” benefits* in order to differentiate them from the “regular” in-work benefits that do not have any predefined maximum duration after moving into work.

Based on this definition, Latvia does not have an “in-work” benefit programme. However, earnings disregards provided to recipients of GMI and housing benefits are classified as *into-work benefits* (see Sections 3.1.7. and 3.2.7.).

7. Social security contributions and payroll taxes

7.1. Social security contributions (*Sociālās apdrošināšanas obligātās iemaksas*)

Variable names: [SOCSEC_general_p; SOCSEC_general_s; SSCR_general_p; SSCR_general_s]

In 2023, the general social security contribution rate is 34.09%: the employer rate is 23.59% and the employee rate is 10.5%. The social security contribution rate covers:

- state pension insurance – 23.91% (from the state pension insurance 14% are used to finance the notional defined-contribution (NDC) or the 1st pillar pension scheme and 6% is directed to the person’s individual account within the state mandatory funded defined contribution pension scheme (FDC) or the 2nd pillar pension scheme. If the person is not a member of the 2nd pillar pension scheme then 20% of the state pension insurance are directed to the 1st pillar pension scheme);
- unemployment insurance – 1.60%;
- occupational accident insurance – 0.66%;
- disability insurance – 2.29%;
- maternity and sickness insurance – 3.47%;
- parental insurance – 1.16%;
- health insurance – 1.00%.

In 2023, the social security contribution ceiling is EUR 78 100 per year.

There is no automatic indexation of the social contribution ceiling. Changes of its amount are made on discretionary basis and approved by the Parliament.

7.2. Entrepreneurship risk state duty (*Uzņēmējdarbības riska valsts nodeva*)

Variable names: [ersd_p; ersd_s]. In the model, the entrepreneurship risk state duty is included in variable [SSCR].²⁰

In accordance with the law On Protection of Employees in Case of Employer’s Insolvency, employers who according to law can be announced as bankrupt shall pay entrepreneurship risk state duty into the Employee Claims Guarantee Fund to satisfy employees claims in the event of the insolvency of an enterprise. The duty does not apply to state/local government or other legal persons governed by public law.²¹ The holder and manager of the resources of the Employee Claims Guarantee Fund shall be the State agency “Insolvency Administration”. From the Employee Claims Guarantee Fund the following claims may be covered:

1. work remuneration for the last three months of the employment relationship during 12 months before entering insolvency;
2. reimbursement for annual paid leave (holiday payment) which an employee became entitled to receive within the 12 month period before entering insolvency;
3. reimbursement for other types of paid absence within the last three months of the employment relationship during the 12 months before entering insolvency;
4. severance pay in minimum statutory amount stated by the law;

²⁰ This payroll tax is included in the model for all years starting from TaxBEN version 2.3.1 released in October 2021.

²¹ The model assumes that employees work in the private sector.

5. reimbursement for damages due to an accident or occupational disease for the whole unpaid period;
6. reimbursement for damages to be paid for four subsequent years ahead.

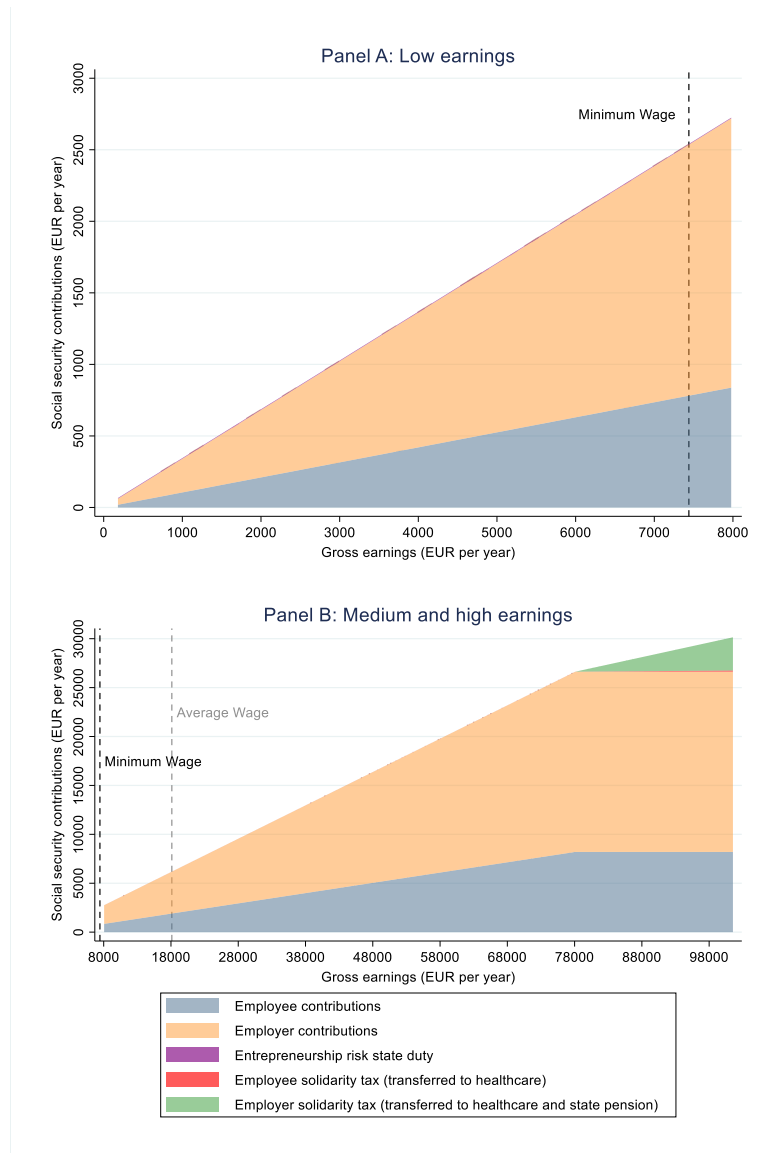
The claims listed above and the related compulsory state social insurance security and personal income tax payments shall be calculated taking into account the amount of the minimum monthly wage specified on the day when insolvency case of the employer occurred, applying a coefficient of 1.5.

In 2023, the monthly value of the duty is EUR 0.36 per payroll employee.

There is no automatic indexation of this payroll tax. The amount has not been changed since 2006.

Figure 7. Social security contributions

40-year old single person without children



Note: Social security contributions do not depend on family structure. The figure shows social insurance contributions, entrepreneurship risk state duty as well as parts of solidarity tax transferred to healthcare contributions and state pension (see description in Section 8.2.).

Source: OECD Tax-Benefit Model.

8. Taxes

Taxation in Latvia is applied on the individual level. The taxation period is a calendar year.

8.1. Personal income tax (*Iedzīvotāju ienākuma nodoklis*)

Variable name: **[IT_p; IT_s]**

Personal income tax shall be paid for the natural person incomes. Since 2018, the personal income tax rates are progressive.

8.1.1. Tax allowances

The basic tax allowance (non-taxable minimum):

Since 2016, the differentiated non-taxable minimum was introduced, meaning that the amount of basic non-taxable minimum is not fixed but depends on the income level of the taxpayer.

In 2023, the maximum non-taxable minimum is EUR 6 000 per year (TA_{max}), i.e. EUR 500 per month.

The maximum non-taxable minimum is applied to persons with the taxable income below EUR 6 000 per year (Y), i.e. EUR 500 per month. The income threshold, above which the non-taxable minimum is not applicable is EUR 1 800 per month. If the taxable income is between EUR 6 000 per year (EUR 500 per month) and EUR 21 600 per year (EUR 1 800 per month), the differentiated annual non-taxable minimum ($DNTM$) is calculated according to formula below:

$$DNTM = TA_{max} - 0.38462 \times (AI - Y)$$

AI - taxpayer's total amount of annual taxable income

Since 2018, the differentiated non-taxable minimum is applied every month based on the State Revenue Service (SRS) forecast of a person's annual income.

Tax allowance on dependants:

In 2023, tax allowance for each dependant is EUR 3 000 per year (i.e. EUR 250 per month).

The taxpayer can apply the allowance for a child below 18 years of age and for a child below 24 years of age if he or she continues the acquisition of a general, professional, higher or special education. The allowance for dependants relates to a taxpayer's child and in certain cases - sisters, brothers, grandchildren, as well as guardianship or dependent persons. The taxpayer can also apply the relief for unemployed spouse who is taking care of:

- one minor child who is recognised as a person with disability;
- one child below 3 years of age;
- three or more children below 18 years or below 24 years of age (if in education), of which at least one is below 7 years of age;
- five children below 18 years or below 24 years of age (if in education).

Other allowances (Eligible Expenditure) covered by the model:

Prior to imposing tax on income, the following expenditure of the payer shall be deducted from the amount of annual taxable income:

- Social security contributions;
- Solidarity tax.

Other allowances (Eligible Expenditure) (*not covered by the model*):

- expenditure for further training, acquisition of a speciality, acquisition of an education, including acquisition of interest-related education programmes for children, for the use of health and medical treatment services and payments of health insurance premiums to insurance companies;
- contributions made to private pension funds;
- payments of insurance premiums made in conformity with a life insurance to an insurance company;
- expenditure of the authors and performers of works of science, literature and art, inventions and industrial models which is related to the creation, publication, performance or other use and for which the authors and performers receive author's fees (royalty);
- amount which in the form of donation or gift has been transferred to a budget institution or association, foundation and religious organisation or the institution thereof registered in the Republic of Latvia;
- amount which, in accordance with the Law on Financing of Political Organizations (Parties), in the form of a donation or gift has been transferred to a political party or association of political parties thereof registered in the Republic of Latvia.

There is no indexation of the non-taxable minimum amount and its thresholds as well as other tax allowance. The changes are made on discretionary basis and approved by the Parliament.

8.1.2. *Tax base*

All benefits considered in the model are not taxable. The tax base is calculated as employment income minus tax allowances. Tax allowances are first subtracted from the lowest income tax bracket, then the remaining tax allowances are subtracted from the following tax bracket.

8.1.3. *Income tax schedule*

From 2018, the progressive income tax rate has been introduced (in 2017 the PIT was a flat tax rate of 23%).

The personal income tax rates in 2023 are:

- 20% - for income up to EUR 20 004 per year;
- 23% - for income between EUR 20 004 and EUR 78 100 per year;
- 31% - for income exceeding EUR 78 100 per year.

The 20% and 23% tax rates (depending on the level of income) are applicable monthly in workplaces where a payroll tax book is submitted, but the 23% rate should be applied in all other workplaces.

The 31.0% rate is calculated only in the annual tax return, but during the year, the tax is paid as Solidarity tax for income above the Social contribution ceiling - EUR 78 100 per year.

There is no indexation of the tax thresholds, changes are made on discretionary basis and approved by the Parliament.

8.1.4. Tax credits

There are no tax credits in Latvia.

8.2. Solidarity tax (*Solidaritātes nodoklis*)

Variable names: `[soltax_ee_p; soltax_ee_s]`

From 1 January 2016 a new tax has been introduced – the solidarity tax. The tax is paid for the income exceeding the social security contributions ceiling. In 2023, the solidarity tax is paid for the income exceeding EUR 78 100 per year. The solidarity tax rate is lower than the social security contribution rate: 25.0% in 2023. In 2023, the distribution of the tax is:

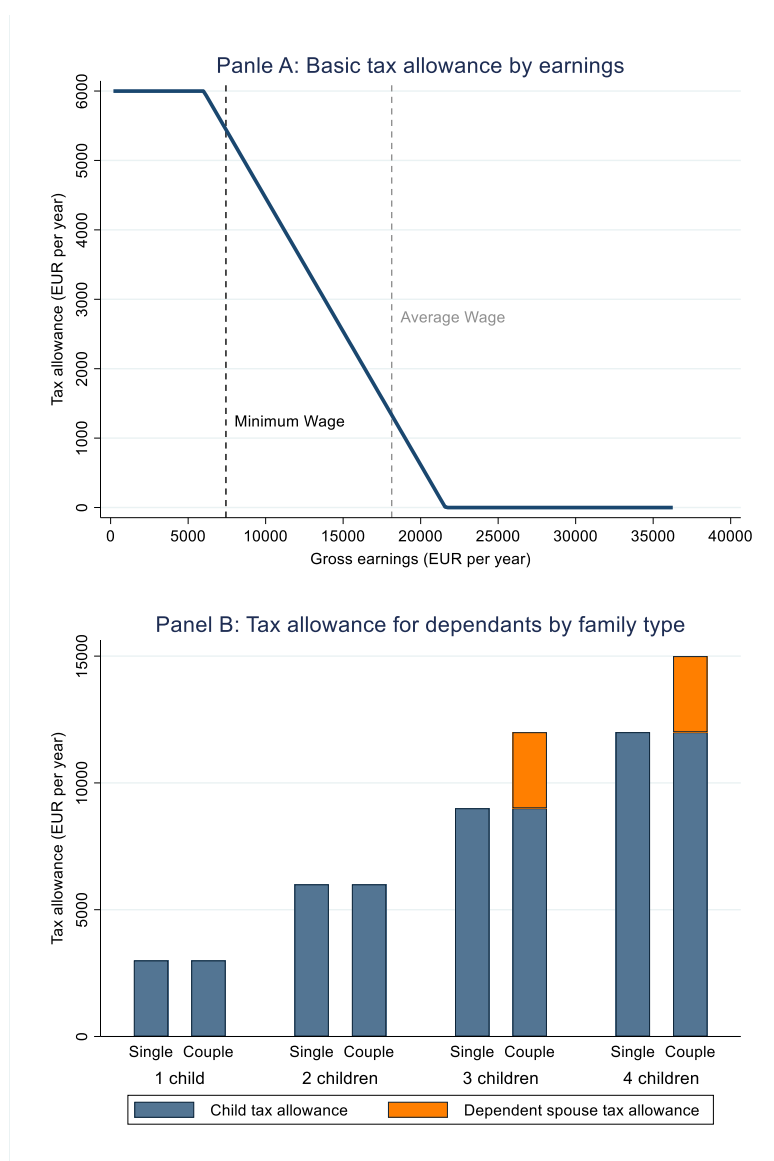
Total solidarity tax rate for incomes exceeding EUR 78 100 per year	25%
<i>From which:</i>	
State pension insurance payment (paid by employer; from 2021 not personalized payment)	14%
Health insurance payment (paid both by employer and employee)	1% (0.5% each)
Solidarity payment (paid by employee as payment of personal income tax third rate)	10%

During the year the solidarity tax rate is applied at 34.09% (social security contributions rate). The repayment of overpaid tax is made to the employer during the next tax year. *In the model, the final tax is simulated.*

Solidarity tax applies to all socially insured individuals – employees, self-employed, if their income during the calendar year exceeds the social security contributions ceiling. Employers are also subject to the solidarity tax (in the same way as they are liable for paying employer social security contributions).

Figure 8. Tax allowances

40-year old single or couple with or without children

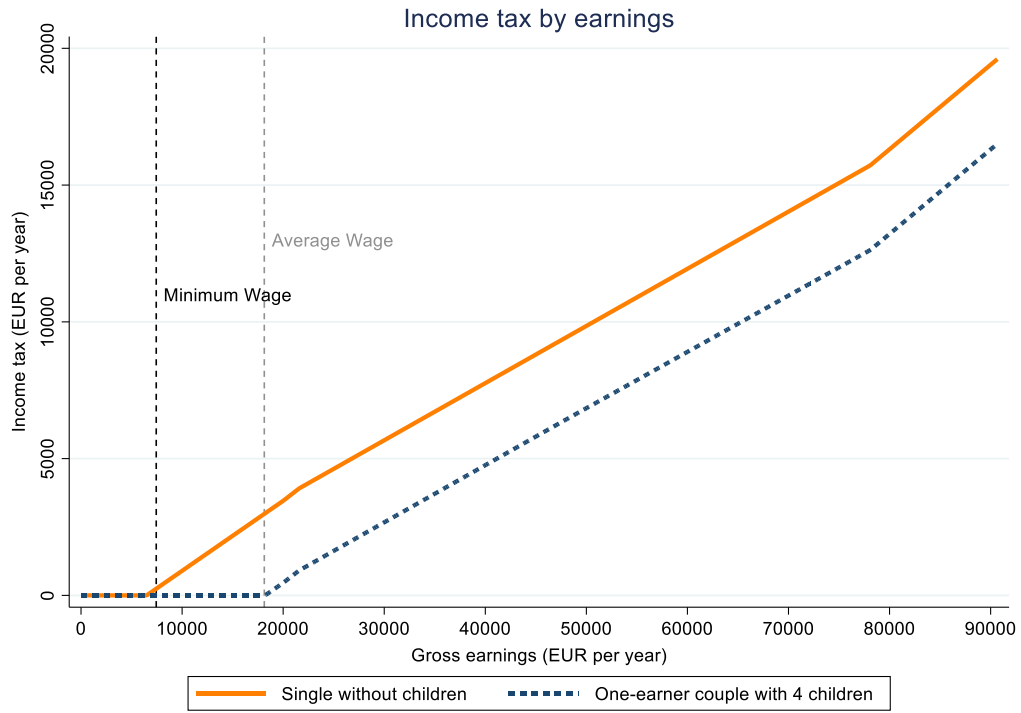


Note: The figure shows the maximum amounts of tax allowances that a person is eligible to. The actual amounts that a person can use are limited by taxable income (not shown in the figure). In Panel A, basic tax allowance does not depend on family structure, but it decreases with earnings. In Panel B, tax allowance for dependants does not depend on earnings, but it depends on the family structure. Children are assumed to be 4, 6, 8, and 10 years old. In a couple, the spouse is not working; thus, a working adult in a couple with 3 or more children is eligible to dependent spouse allowance.

Source: OECD Tax-Benefit Model.

Figure 9. Income tax

40-year old single or couple with or without children



Note: A person has no other sources of income but earnings from work. Income tax is calculated at the individual level. However, the amount of tax allowances subtracted from the tax base depends on family structure. Two cases are shown as examples: a single person without children and a one-earner couple with four dependent children. Income tax includes the part of the employee solidarity tax that is transferred to the personal income tax.

Source: OECD Tax-Benefit Model.

9. Selected output from the OECD tax-benefit model (TaxBEN)

This section shows selected output of the TaxBEN model for Latvia 2023. TaxBEN by default produces the following output: net household incomes (**black line**) and its subcomponents (**coloured stacked areas**) for selected family and individual circumstances.

The model and the related web calculator is accessible from the [project website](#). The figure shows outputs for four scenarios:

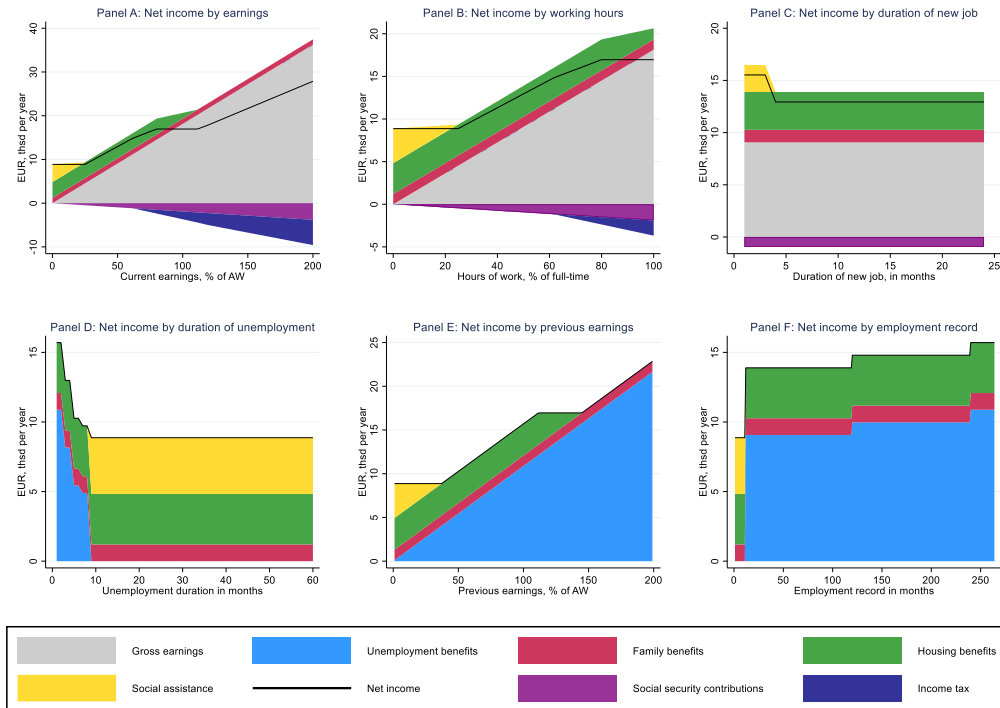
- By percentage of the average wage (**Panel A**);
- By working hours (**Panel B**);
- By duration of a new job (in months) for a person claiming social assistance who started a new employment (**Panel C**);
- By unemployment duration (in months) for a jobseeker claiming unemployment benefits (**Panel D**);
- By previous gross earnings levels for a jobseeker claiming unemployment benefits (**Panel E**);
- By previous employment record, for a jobseeker claiming unemployment benefits (**Panel F**).

The stacked areas shows the following household income components: **GROSS** = gross earnings; **SSC** = social security contributions; **IT** = income tax; **FB** = family benefits; **HB** = housing benefits; **SA** = social assistance; **IW** = in-work benefits. Note that each component may contain more than one benefit or tax.

Results refer to a two-adult family with two children. Adults are both 40 years old whereas children are 4 and 6 years old respectively. Social assistance and housing benefit supplements are assumed to be available in all the six scenarios provided that the necessary income and eligibility requirements are met. Where receipt of social assistance or other benefits is subject to activity tests (such as active job-search or being available for work), these requirements are assumed to be met.

Figure 10. Selected output from the OECD tax-benefit model

40-year old couple with two children



Note: In Panel A, B, and C the first adult is employed, whereas the second adult is out of work and not eligible for unemployment benefits, e.g. because they have expired (the same is assumed for the first adult when earnings are zero). In Panel A, the first adult works full-time at different wage levels. In Panel B, the first adult earns average (hourly) wage at variable working hours. In Panel C, the first adult has just started a new full-time employment at 50% of the average wage after claiming social assistance.

In Panels D, E, and F the first adult is out of work and claiming unemployment benefits, whereas the second adult is out of work and not eligible to unemployment benefits. In Panel D and F, previous earnings of the first adult equal to the average wage. In Panels D and E, the first adult is assumed to have a 'long' employment benefit receipt of 264 consecutive months before the job loss. Panels E and F refer to the 2nd month of unemployment benefit receipt.

Source: OECD Tax-Benefit Model.

Annex A: Other benefits and direct taxes

This section provides a brief description of other cash benefits and taxes on employment incomes in Latvia that are relevant for some members of the population below the statutory retirement age, but which are not included in the OECD tax-benefit model.

State Social Security Benefit (Valsts sociālā nodrošinājuma pabalsts)

The state social security benefit to person with disability is granted to the person who has been recognised as a person with a disability and has surpassed 18 years of age if person doesn't have the right to receive state pension (except for a survivor's pension for a person with a disability) or insurance compensation in relation to an accident at work or occupational disease. The State social security benefit shall be granted to these persons for the specified period of disability. If person with disability is in an employment relationship, the payment of state social security benefit is not terminated.

State social security benefit for person with disability depends on the established disability group. For persons with I and II disability group, the amount of state social security benefit is also affected by the person's employment status. Unemployed persons with disability group I or II receive a supplement to the state social security benefit: 30% for group I and 20% for group II.

Since 1 July 2021, the amounts (EUR per month) of the state social security benefit for persons with disabilities are:

Disability group	Coefficient (applied to the base)	Standard amount	Increased amounts for unemployed persons
For persons with disability since childhood			
I	1.4	190.40	247.52
II	1.2	163.20	195.84
III	Base		136.00
For persons with disability in general case			
I	1.4	152.60	198.38
II	1.2	130.80	156.96
III	Base		109.00

Since 1 July 2023, the amendments to the Law on State Social Allowances are in force²² and the amounts (EUR per month) of the state social security benefit for persons with disabilities are:

²² See: <https://likumi.lv/ta/id/340385-grozijumi-valsts-socialo-pabalstu-likuma>

Disability group	Coefficient (applied to the base)	Standard amount	Increased amounts for unemployed persons
For persons with disability since childhood			
I	1.4	219.80	285.74
II	1.2	188.40	226.08
III	Base		157
For persons with disability in general case			
I	1.4	175.00	227.50
II	1.2	150.00	180.00
III	Base		125.00

State social security benefit is also granted to a child that has not reached the majority (18 years) who is not married and has lost one or both breadwinners (parents). The benefit shall be paid to parents of a child, guardian or any other person that actually raises a child. The benefit payments shall be carried on if after reaching the lawful age, a person attends general or professional educational establishments and is not older than 20 or studies at day department (full time education) of any higher educational establishment and is not older than 24. The amount of state social security benefit for each child is:

- up to 6 years old (including) – EUR 136.00 per month;
- from the age of 7 onwards – EUR 163.00 per month.

Benefit in a crisis situation (Pašvaldības pabalsts krīzes situācijā)

A local government is entitled to grant a benefit to a person (or a family) in a crisis situation without assessing the income, if the family (person) is unable to meet its basic needs due to a disaster or other circumstances independent from the will of the family (person), and it needs psychosocial or material assistance. The benefit in a crisis situation can be paid in cash or in kind.

Other social assistance benefits (Citi pašvaldību sociālās palīdzības pabalsti)

Local government is entitled to disburse other benefits with the aim to maintain the basic needs stated by Law on Social Services and Social Assistance, for example, health care, mandatory education, etc. The amount and payment procedures, as well as persons who are entitled to this allowance have to be determined by local municipality's binding regulation. These benefits can be paid in cash or in kind. Local government is entitled to disburse other benefits only if the justified demand for GMI benefits has been satisfied.

Supplement to family state benefit for disabled child (Piemaksa pie ģimenes valsts pabalsta par bērnu ar invaliditāti)

If family state benefit is granted for a child with disability under 18, an additional payment at the amount of EUR 106.72 per month shall be granted additionally to the mentioned benefit. A person that raises a disabled child keeps the right to receive this supplement regardless the payment of a family state benefit until the child reaches 18.

Child birth benefit (Bērna piedzimšanas pabalsts)

Child birth benefit is granted to one of the child's parents or to a person who took a guardianship of a child until one year of age. The right to receive the child birth benefit is granted since the 1st day after the child has been born or since the day when guardianship is established. The amount of child birth benefit is EUR 421.17 for every born child (one-off payment).

Disabled child care benefit (Bērna ar invaliditāti kopšanas pabalsts)

This benefit is granted to a person who cares for a child for whom the State Medical Commission for Expert-Examinations of Health and Working Ability has specified disability and issued an opinion regarding the necessity for special care in relation to serious physical and functional disorders. The payment of care of disabled child benefits shall be terminated when the time period ends for which the disability and the necessity for special care have been specified, or when the child reaches the age of 18 years. From 1 July 2019 the amount of the care of disabled child benefit is EUR 313.43 per month. The state also covers social insurance contribution payments on behalf of persons receiving disabled child care benefit amounting to 20% from EUR 71.14.

Maternity benefit (Maternitātes pabalsts)

Maternity benefit is paid to a socially insured person in two parts. The first part is paid for 56 or 70 days of prenatal leave. Benefit for 70 calendar days is paid to the woman whose pregnancy-related medical care was commenced at a medical prophylactic institution up to the 12th week of pregnancy. The second part (postnatal leave) of the benefit is paid for 56 or 70 calendar days after the birth of the child. Benefit for 70 days can be received due to childbirth complications, or complications during the period following childbirth, and also in cases where two or more children were born.

The Maternity benefit is granted in the amount of 80% from the average insurance contribution wage of the benefit recipient.

Maternity benefit could be granted to the father of the child or to another person who actually cares for the child for the entire period of childcare, but not longer than up to the 70th day of the child's life in the following cases: (1) mother of the child has died during childbirth or during the time period up to the 42nd day of the period following childbirth; (2) mother has relinquished the care and raising of the child in accordance with the procedures laid down in laws and regulations; (3) if mother cannot care for a child during the time period up to the 42nd day of the period following childbirth due to sickness, injury, or other health-related reasons, the maternity benefit shall be granted to the father or another person who actually cares for the child at home for the days when the mother was not able to care for the child.

Paternity benefit (Paternitātes pabalsts)

Paternity benefit is paid to a socially insured person for 10 working days of the granted leave (the leave shall be granted immediately after birth of the child, but not later than within six months from the birth of the child): (1) to the father of the child in relation to birth of the child; (2) to one person who, upon request of the mother of the child, participates in the care for the child if the paternity of the child has not been recognised or determined or the father of the child is dead, or the custody rights have been terminated for the father of the child; (3) to one of the parents in relation to adoption of a child up to 18 years of age who was in out-of-family care

The paternity benefit is granted in the amount of 80% from the average insurance contribution wage of the benefit recipient.

Parental benefit (Vecāku pabalsts)

Parental benefit is granted to socially insured person who cares for the child or several children born during one childbirth (to one of the parents of the child, one of adopters under whose care and supervision the child to be adopted has been placed with a decision of the Orphan's and Custody Court before approval of the adoption in the court, a member of the foster family who has entered into an agreement with a local government, guardian, or another person who in accordance with a decision of the Orphan's and Custody Court actually cares for and raises the child).

Person can choose the total period of Parental benefit, which consists of the parental benefit and the non-transferable part, which is two calendar months for each parent. It is possible to choose one of the following periods of benefit:

- 1) 19 months, from which 15 months from the day of birth of the child may be used until the day when the child reaches the age of 1.5 years, but the non-transferable part, which is two calendar months to one parent, may be used by each parent until the day when the child reaches the age of 8 years (benefit amount – 43.75% previous earnings);
- 2) 13 months, of which 9 months from the date of birth of the child may be used until the age of one year of the child, but the non-transferable part, which is two calendar months to one parent, may be used by each parent until the age of 8 years of the child (amount of benefit – 60% of previous earnings).

The amount of Parental benefit is reduced to 50% of the benefit granted, if the beneficiary discontinues Parental leave in order to resume working.

Immovable Property Tax (Nekustamā īpašuma nodoklis)

The immovable property tax rate for residential houses shall be:

- 0.2% of the cadastral value, that does not exceed EUR 56 915;
- 0.4% of the cadastral share, that exceeds EUR 56 915, but does not exceed EUR 106 715;
- 0.6% of the cadastral share, that exceeds EUR 106 715.

The immovable property tax shall be reduced by 50%, but not more than by EUR 500, if the person (himself or herself, or together with the spouse) or his or her spouse has three or more children under 18 years of age (also children under guardianship or children placed in a foster family) or children under 24 years of age acquiring secondary, professional or higher education as on 1 January of the taxation year and if his or her spouse has the declared place of residence in the object together with at least three of the abovementioned children.

Annex B: Measures to assist households in the cost-of-living crisis

In addition to the standard housing benefit (*Mājokļa pabalsts*), the Latvian government put in place additional housing benefit support systems:

- Support in response to rapidly rising energy prices during the energy crisis (hereafter - Energy crisis support)²³
- Specific provisions for the electricity trade service for the protected customers²⁴.

In the end of January 2022, due to the unstable political situation and an energy crisis in Europe, national regulations were established to shield households from the sudden surge in energy prices for their housing. Specific support systems were devised for each energy service including gas, electricity, and heating from various sources such as central, pellets, briquettes, and firewood. These systems were customized to offer the maximum possible support.

Furthermore, the Regulations Regarding the Trade Service of a Protected Customer⁵ laid down specific provisions to assist the protected customers by reducing a payment of the bill for electricity, system services and the mandatory procurement component, excluding the value added tax.

Energy crisis support is granted to all the households that use the energy for their own consumption, except for households that use energy for commercial activities or other forms of professional needs.

Specific provisions for the electricity trade service for the protected customers are available to the four groups of customers: 1) for a poor or low-income household (person); 2) for a family (person) which takes care for a child with a disability; 3) for a person with the group I disability or his or her trustee; 4) for a large family. However, the service shall not be provided to a protected customer who has been registered in the Register of Applicants and Debtors of the Maintenance Guarantee Fund as a debtor.

Energy crisis support is split into several different support mechanisms – one for electricity, one for gas and several for heating depending on type.

Electricity benefits system has three different forms: (1) distribution cost cancellation; (2) power-related cost cancellation and (3) electricity cost reduction. First two forms are not related to the electricity price directly. They are part of the infrastructure usage costs tied to the electricity distributor. The costs are fully subsidised from the government for all households. The third benefit form – electricity cost reduction – refers to the subsidies of the price difference between the current price and 160 EUR/MWh. This price subsidy is intended only for the first 100 MWh used each month. In case the consumption exceeds this amount, no additional benefits are given to the households.

²³ See Law on measures to reduce the extraordinary increase in energy resource prices: <https://likumi.lv/ta/id/329532-energoresursu-cenu-arkarteja-pieauguma-samazinajuma-pasakumu-likums>.

²⁴ See Regulations Regarding the Trade Service of a Protected Customer: <https://likumi.lv/ta/id/323662-aizsargata-lietotaja-tirdzniecibas-pakalpojuma-noteikumi>

Gas benefits system is similar to the electricity cost reduction system. However, there is no limitation of the usage of the gas. For all of the gas usage of the households, the subsidised part is the difference between current price and 0.034 EUR/kWh.

The heating benefit has different forms depending on the used heating source:

In case of the centralised heating:

- If the price is below 68 EUR/MWh, no benefits are offered;
- If the price is over 68 EUR/MWh, but lower than 150 EUR/MWh, the difference from the price and 68 EUR/MWh is 50% subsidised;
- Lastly, if the price is over 150 EUR/MWh, the 90% of the price over 150 EUR/MWh is subsidized on top of the subsidies for the price range of 68 – 150 EUR/MWh.

Secondly, if the heating is based on electricity:

- Subsidies will be granted only for the consumption that is between 500 and 2000 kWh per month;
- The amount equals to 50% of the price difference between current price and 0.160 EUR/kWh, but the subsidised price cannot be higher than 0.100 EUR/kWh.

Thirdly, if the heating is based on gas:

- The government will subsidise 30 EUR/MWh for users that have consumption higher than 221 kWh/month.

Fourthly, if heating is done by pellets and briquettes:

- 50% of the price difference between current price and 300 EUR/tonne;
- The subsidised price cannot exceed 100 EUR/tonne.

Lastly, if the heating is done by firewood:

- 50% of the price difference between current price and 40 EUR/ber.m³;
- The subsidised price cannot exceed 15 EUR/ber.m³;

On top of this, in case the household has bought firewood before 31 August 2022, and has no documentation, the government grants benefits of 60 EUR per living space.

Specific provisions for the electricity trade service for the protected customers provide a payment reduction of the bill amount for electricity, system services and the mandatory procurement component, excluding the value added tax. The monthly reduction amount differs by group:

- for a poor or low-income household (person) - EUR 5;
- for a family (person) which takes care for a child with a disability - EUR 5;
- for a person with the group I disability or his or her trustee - EUR 5;
- for a large family - EUR 10.

Specific provisions for the electricity trade service for the protected customers is incorporated in the expenses monthly until the end of 2023.

Similarly, Energy crisis support is intended to be given on the monthly basis, however, duration for each type of the support differs:

- Subsidies for electricity (including heating with electricity): 01.10.2022 – 30.04.2023;
- Subsidies for gas: 01.10.2022 – 30.04.2023, while for heating with gas: 01.07.2022 – 30.04.2023;
- Subsidies for central heating: 01.10.2022 – 30.04.2023;
- Subsidies for heating using pellets and briquettes: 01.05.2022 – 30.04.2023;
- Subsidies for using firewood: 01.05.2022 – 30.04.2023, while for specific case of buying firewood before 31.08.2022, the duration to apply for benefits were 01.10.2022 – 30.11.2022.

In addition to the new support measures offered, Article 13, Part 2.2 of the Law on Measures to Reduce the Extreme Increase in Energy Prices, from 1 September 2022, also increased the norms applied for calculating the amount of the ‘standard’ housing allowance (see Section 3.2. :

- if heating is provided by gas or electricity: up to 4 EUR per square meter (instead of previous 0.95 EUR per square meter of housing);
- If heating is provided with solid fuel: up to 12 EUR per square meter (instead of previous 6 EUR per square meters of housing).