

Latvia

1. Government requirements

Registration requirements

State Revenue Service (SRS)

Information of the company is sent to the SRS within one working day once the legal entity is registered in the commercial register of Latvia. Data is exchanged electronically between state authorities. The SRS registers the taxpayer in the taxpayers' register or takes a decision to refuse the registration of the new taxpayer no later than three working days after the registration documents are received.

All new employees must be reported by the company to the SRS at least one day before the commencement of the employment relationship

Electronic Declaration System (EDS)

All companies, regardless of their chosen form of business, should collaborate with SRS via the EDS. Tax returns and statements should be submitted in the EDS pursuant to the tax statutory deadlines.

Employment contracts

An employer and an employee shall establish a mutual legal employment relationship by concluding an employment contract. With an employment contract, the employee undertakes to perform specific work, subject to specified working procedures and orders of the employer, while the employer undertakes to pay the agreed work remuneration and to ensure fair and safe working conditions that are not harmful to health. The provisions of the Civil Law shall apply to contracts of employment. General rules of employment are stipulated in the Labor Law of the Republic of Latvia.

Mandatory state social insurance contributions (SSC)

An employer (including a micro-enterprise taxpayer) shall register each employee with the SRS, by submitting the information regarding them within the following timescales:

- Regarding new employees: not later than one day before they commence work, if information is submitted via paper form, or one hour before they commence work, if information is submitted via EDS
- Regarding employees who have changed or lost their status as an employee: not later than within three working days after the change or loss of status

The requirements mentioned above are described in Cabinet Regulations No. 827 "Regulations Regarding Registration of Persons Making Mandatory State Social Insurance Contributions and Reports Regarding Mandatory State Social Insurance Contributions and Personal Income Tax."

Ongoing compliance requirement

Personal Income Tax (PIT)

PIT shall be paid by all natural persons who are domestic taxpayers (residents) and who have obtained income in the Republic of Latvia and foreign states, if any, during the taxation period (calendar year). Foreign taxpayers who have obtained income in the Republic of Latvia during the taxation period are also subject to PIT

Starting from 2020, PIT has the following progressive rates:

- For income up to EUR20,004 per year – 20%
- For income from EUR20,005 to EUR62,800 per year – 23%
- For income more than EUR62,800 per year – 31.4%

The tax rate of 31% is not applied to earned income during the tax year. The payer of income deducts tax of 23% from all income above EUR1,667 per month, and the final PIT calculation is made pursuant to the summary procedure. As part of this procedure, employees part of Solidarity tax in amount of 10% will be transferred to the PIT account with the State Treasury, except where a taxable person is holding an A1 certificate and statutory social insurance contributions are paid abroad.

If the employee has not submitted the tax book to the employer, 23% of PIT is calculated from the first Euro of income.

If the employee has registered the tax book, the following tax allowances are applicable:

- Non-taxable minimum which is calculated individually to each employee by Latvian State revenue services according to income declared in previous six months. The maximum non-taxable minimum is EUR300 and it is applicable if the employee receives minimum wage. If the employee's wage is above EUR, the non-taxable minimum is zero.
- Allowances for dependents for year 2020 is EUR250 for each dependent per month

The Law of the Republic of Latvia on PIT governs the PIT rates. PIT from salaries is calculated, withheld and paid by the company.

PIT and SSC reporting

By the date determined by State Revenue Service for making monthly mandatory payments, the employer shall submit to the State Revenue Service an employer's report on monthly calculated salaries and payroll taxes (e.g., SSC and PIT) till 17th of the following month.

Notification of the amounts disbursed to a natural person

This notification shall be sent to the SRS no later than 1 February of the year following the taxation year, provided that the employment relations have existed until the end of the year. The notice regarding the amounts disbursed to an employee, considering one with whom employment relations have not existed until the end of the year, shall be sent by the employer to the SRS by the 15th of that month which follows the month of the termination of employment relations.

State social insurance contributions (SSC)

The standard SSC rate is 34.09% and it is calculated from employees' monthly gross income. SSC is divided into two parts — the employee's part and the employer's part. The standard distribution is 10.5% and 23.59%. SSC rates and splits between parties can differ based on special categories of people.

SSC shall be paid by the date determined by State Revenue service to State Treasury

SSC is accounted from income up to EUR62,800 per year, if the employee's yearly income exceeds the threshold - deducted SSC above the threshold (employee's part 10.5% and employer's part 23.59%) is transferred to Solidarity tax.

SSC is calculated and paid by the employer. The general rules of SSC calculation and application are described in the Law of the Republic of Latvia on State Social Insurance and Cabinet Regulation No. 786.

2. Pension requirements

Pension system in Latvia

Since July 2001, there has been a three-tier pension system in Latvia which includes the first tier (state compulsory unfunded pension scheme), the second tier (state funded pension scheme) and the third tier (private voluntary pension scheme). The underlying principle of the system is: the larger the contributions made, the larger the pension will be. The simultaneous existence of all three pension tiers ensures the stability of the system because it reduces the demographic and financial risk for each of the tiers.

All persons making SSC are involved in the first tier. Paid contributions are used to fund old age pensions for the existing generation of pensioners.

The SSC of those who participate in the second pension tier, through their chosen fund managers, are invested into the financial market and saved for their pensions.

The third pension tier provides the possibility for every individual to choose to create additional savings for his or her pension in private pension funds.

The pension system in Latvia is supervised by the State Social Insurance Agency (SSIA).

3. Employment obligations

Social insurance

All employees who have reached 15 years of age and are employed by an employer shall be subject to mandatory social insurance. Persons who have reached 15 years of age, whose permanent place of residence is of Latvia and who are not subject to mandatory social insurance, may join the state social insurance voluntarily in accordance with the procedures stipulated by the Cabinet. Health and life insurance is an additional benefit for employees and is optional to employers.

Minimum wage

The minimum monthly salary in Latvia is determined by the Cabinet. In 2021, it is EUR500 for normal working hours of 40 hours per week.

Annual paid leave

Every employee has the right to annual paid leave. Such leave may not be less than four calendar weeks, not counting public holidays. Employees under 18 years of age shall be granted annual paid leave of one month. With the agreement of the employee and the employer, annual paid leave in the current year may be granted in parts, but one part of the leave in the current year shall not be less than two uninterrupted calendar weeks. In exceptional cases, when the granting in the current year of the full annual paid leave to an employee may adversely affect the normal course of activities, it is permitted for the employee to transfer part of the leave to the subsequent year, with their written consent. In such cases, the part of the leave in the current year shall not be less than two consecutive calendar weeks. The part of the transferred leave shall, as far as possible, be added to the leave of the next year. Part of the leave may be transferred only to the subsequent year

Resting hours

Daily and weekly rest time differs according to the type of employment (e.g., normal working hours, part-time work, or aggregated working hours).

4. Payroll requirements

An employer has a duty to pay work remuneration not less than twice a month, unless the employee and employer have agreed on payment of work remuneration once a month.

There are three mandatory payroll taxes calculated and paid from salaries in Latvia. Personal Income Tax and Social Security Contributions have been described in this guide. The third is an unemployment risk fee of EURO0.36 for one reporting month which is paid for each employee with whom the company has employment relationships. The company, on a monthly basis, calculates and pays this risk fee into the State Budget. The amount and payment procedures are determined by Cabinet Regulation No. 772.

Payslips

When paying work remuneration, an employer shall issue a written calculation in which the remuneration disbursed, the taxes deducted and the mandatory state social insurance payments made are specified. This should also include overtime hours, hours worked at night and hours worked on public holidays.

The employer has a duty to explain these calculations upon the request of an employee.

5. Banking requirements related to payroll

Payment requirements are described in the Labor Law. Work remuneration, in accordance with Labor Law, shall be calculated and paid in cash in local currency Euro. However, most companies have chosen to use non-cash payments. Work remuneration shall be calculated and disbursed in cash. An employer has the right to disburse work remuneration as non-cash payments only when both the employee and the employer have specifically agreed.

