



Weekly Briefing

Latvia economy briefing:

During the economic crisis, the Latvian government, on the one hand, expands state support for businesses and population affected by Covid-19, on the other hand, raises taxes

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Introduction

In November, there were many important events related to the country's economy in crises conditions.

The first income threshold (UIB - universal basic income) in the amount of 109 EUR was set by the Parliament, which may have a positive impact on more than 140,000 low-income people.

Due to the second wave of Covid-19 and introduction of the state of emergency, state support measures were expanded for businesses and population and considered to be extended until 2021.

At the same time, the Parliament supported amendments to the Law on increasing the tax on micro-enterprises, which caused a wave of discontent among small entrepreneurs in Latvia.

Income threshold setting

The Budget and Finance (Tax) Committee of the Parliament for the final reading supported the amendments to the Law "On Social Security", which envisages defining the minimum income thresholds, determining their minimum amounts and the frequency of review.¹

The draft law envisages stipulating that the amount of the minimum income (UIB) is the amount of support provided to an individual or a person living in the household of one person in the field of social protection, and the minimum income threshold will not be lower than EUR 109. Thus, was setting the lowest possible income threshold at which low-income residents can be supported from public resources. It is envisaged that the minimum income thresholds will be reviewed simultaneously at least every three years.

The Ministry of Welfare has indicated that the revision of the minimum income thresholds will have a positive impact on more than 140,000 low-income and very low-income people.

¹ NRA.lv (11.11.2020) Saeimas Budžeta un finanšu komisija piekrit noteikt minimālo ienākumu sliekšņus. Available at: <https://nra.lv/politika/329766-saeimas-budzeta-un-finansu-komisija-piekrit-noteikt-minimalo-ienakumu-slieksnus.htm>

State support measures for businesses and population affected by Covid-19

On November 10, the Cabinet of Ministers supported the proposal of the Ministry of Economics to pay *benefits in the amount of EUR 330 to EUR 1000* per month to employees who are idle in the Covid-19 crisis.² The support measures will be applied from the first day of the emergency, November 9, until December 31 of this year. The cost of downtime benefits is estimated at EUR 65.71 million.

In addition to the downtime allowance, the employee will be able to receive a supplement of EUR 50 for each dependent child under the age of 24. The downtime benefit will not be subject to personal income tax and mandatory state social insurance contributions.

Besides, the Cabinet of Ministers supported the proposal of the Ministry of Economics to provide *state support for a wage subsidy for part-time employees* in a company affected by the Covid-19 crisis, not exceeding EUR 500 per month.³ The support measures will be applied from the first day of the emergency, November 9, until December 31 of this year. The cost of the subsidized job is estimated at EUR 20.12 million.

At the same time, the regulations oblige the employer to pay the employee the difference between the amount of support received and the amount of salary, thus ensuring that the employee will receive 100% remuneration.

The state allocates EUR 30 million to the companies affected by the Covid-19 crisis to compensate the flow of working capital. The period of this support is from November 1 to December 31 of this year.⁴

The Cabinet of Ministers approved the regulations of the Ministry of Economics (MoE) on support for Covid-19 companies affected by the crisis to ensure the flow of working capital. According to the information provided by the MoE, approximately 111,600 taxpayers qualify for the grant, so the implementation of the program may require 30 million euros.

The support will be provided to those companies whose turnover has decreased by at least 20% compared to the average turnover in August, September and October of this year together.

The amount of aid available to the company is set at 30% of the company's gross wages and salaries, for which wage taxes were paid in August, September and October of this year, but not more than EUR 50,000 for the support period and no more than EUR 800,000 for a related group.

² LSM.lv (10.11.2020) Valdība apstiprina dikstāves pabalstu izmaksāšanu līdz 1000 eiro un citus atbalsta pasākumus. Available at: <https://www.lsm.lv/raksts/zinas/latvija/valdiba-apstiprina-dikstaves-pabalstu-izmaksanu-lidz-1000-eiro-un-citus-atbalsta-pasakumus.a381175/>

³ Skaties.lv (10.11.2020) Valsts piemaksās līdz 500 eiro nepilnu darba laiku strādājošajiem Covid-19 krīzē cietušā uzņēmumā. Available at: <https://skaties.lv/zinas/bizness/ekonomika/finanses/valsts-piemaksas-lidz-500-eiro-nepilnu-darba-laiku-stradajosajiem-covid-19-krize-cietusa-uznemuma/>

⁴ DB.lv (10.11.2020) Covid-19 krīzes skartajiem uzņēmumiem apgrozāmo līdzekļu pūsmas kompensācijai valsts atvēl 30 miljonus eiro. Available at: <https://www.db.lv/zinas/apgrozamo-lidzeklu-plusmas-kompensacijai-atvel-30-miljonus-eiro-499667>

Support measures for businesses and population affected by the Covid-19 could be extended to 2021

Several existing support mechanisms for the population and entrepreneurs affected by the Covid-19 crisis could be applied also in 2021.⁵ The list of proposed measures is the following:

- Extend until 30 June 2021 the period during which companies can apply for an extension of the tax payment deadline.
- Extend until 30 June 2021 the possibility for state and local government institutions to exempt merchants and other economic operators, associations and foundations from rent.
- Extend until 30 June 2021 the possibility for employers to apply the Labor Law more flexibly, paying an employee 70% of salary instead of 100% during downtime.
- Extend the term during which the recipient of a state loan can defer the planned principal payments for 2021 for a period of up to three years.
- Extend until 30 June 2021 the possibility to defer payments to creditors included in a natural person's insolvency plan, while extending the length of the debt settlement procedure.
- Extend until 30 June 2021 the possibility to determine the longer term of the action plan of legal protection process.
- Give the right to local governments to set other real estate tax payment terms in 2021.
- The personal income tax payer will be able to make advance payments of this tax from the income of economic activity for the 2021 taxation year voluntarily.
- Municipalities may continue to be eligible for a state budget loan to increase financial capital maintenance costs, if the turnover of a municipally controlled company has decreased by more than 50% compared to the respective period of 2019 due to the state of emergency.
- Extend until 31 December 2021 the right of a member of an association or cooperative society to participate and vote at the general meeting of members remotely.
- To supplement the law with a clause stipulating that the Cabinet of Ministers shall determine the procedure and criteria for granting downtime support and support for wage subsidies in the circumstances of an emergency situation.

⁵ LSM.lv (19.11.2020) Atbalstu Covid-19 krīzē skartajiem iedzīvotājiem un uzņēmējiem varētu piemērot arī 2021.gadā. Available at: <https://www.lsm.lv/raksts/zinas/ekonomika/atbalstu-covid-19-krize-skartajiem-iedzivotajiem-un-uznemejiem-varetu-piemerot-ari-2021gada.a382335/>

The Cabinet of Ministers is discussing the adoption of a decision on the mentioned proposals, but the final decision will be made by the Parliament.

Micro-enterprise tax increase policy

The Budget and Finance (Tax) Commission of the Parliament supported the amendments to the Micro-Enterprise Tax Law, which envisages changing the procedure for payment of the micro-enterprise tax (MET).⁶ The draft law is included in next year's state budget draft law package.

It is expected that from January 1 of the next year, the MET rate for turnover up to EUR 25,000 per year will be 25%, but for turnover exceeding this amount, the tax rate is planned at 40%. Currently, a micro-enterprise can have five employees and their salary must not exceed EUR 720 per month. For turnover up to EUR 40,000, the MET rate of 15% is applied, but for turnover over EUR 40,000 - the rate of 20%. The draft law envisages maintaining the current distribution of METs: 80% of the tax will be state social insurance contributions, 20% - personal income tax.

Amendments to the law have been proposed because a number of shortcomings have been identified in the MET regime over several years, including its widespread use for tax optimization purposes. The authors of the amendments are convinced that such a practice distorts competition, as well as employees in the MET regime have very small social contributions, which creates a risk of social security in the future, the annotation of the draft law states.

However, among the parliamentary opposition and small enterprises themselves, the proposal to raise the tax for micro-enterprises caused a wave of discontent and criticism, since many enterprises will not be able to continue their activities and will be forced to self-liquidate.

Summary

All in all, November was a difficult month for the economy of Latvia. The introduction of state of emergency and a big number of restrictions for business and population in general have a huge impact on the country. However, government is trying to tackle problems related to Covid-19 crisis by introducing state support measures and extend them until 2021.

The income thresholds were set by the Parliament of Latvia. The minimum income threshold (UIB) will not be lower than EUR 109, and this revision will have a positive impact on more than 140,000 low-income and very low-income people in Latvia.

⁶ Saeima.lv (28.10.2020) Mikrouzņēmuma nodokli plāno attiecināt tikai uz mikrouzņēmuma īpašnieku. Available at: <https://www.saeima.lv/lv/aktualitates/saeimas-zinas/29270-mikrouzņemuma-nodokli-plano-attiecinat-tikai-uz-mikrouzņemuma-ipasnieku>

At the same time, next year it is planned to significantly increase the tax on the micro-enterprises (from 15% to 25% and higher depending on the company's turnover). This decision caused a lot of controversy and criticism, and its consequences will significantly affect the further development of small business in Latvia.

References

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