



Weekly Briefing

Latvia political briefing:

The Increase in Salaries of State Officials amid a Decrease in Social Insurance Contributions and the Regulation of the State of Emergency in Latvia caused a lot of Disputes

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Introduction

In November, the adoption of the state budget for 2021 amid a state of emergency due to Covid-19 caused many disagreements and disputes in the internal politics of Latvia, as well as highlighted the priority interests of today's politicians.

Despite the socio-economic crisis caused by COVID, the remuneration of senior state officials will be increased, while social contributions for low-income people are going to be decreased by 1%. The opposition has requested the Parliament to reconsider the decision to increase the remuneration of high-ranking civil servants at a time when the country is in crisis. At the same time, the Minister of Environmental Protection and Regional Development Mr. Juris Puce (the Party "For Development/For") abused his authority, which led to his demission.

To ensure parliamentary involvement in the evaluation of measures to limit the spread of Covid-19 infection, the Parliament could be more actively involved in setting restrictions during the emergency, including requesting a review of the planned restrictions, according to the amendments to the law developed by the Ministry of Justice.

Senior state officials remuneration increase

The law provides for automatic annual review of remuneration in accordance with changes in the average salary for members of the government and parliamentary secretaries of ministries, members of the Parliament and local governments, as well as a number of officials elected, approved and appointed by the Parliament.

In total, the State Chancellery has requested an additional EUR 68,871. It is confirmed that in 2021 expenditures increase will be as follows:

- Prime Minister salary - from EUR 4,814 to EUR 5,055 in 2021;
- Ministers salary - from EUR 4,570 to EUR 4,798;
- Salary of parliamentary secretaries - from EUR 3,545 to EUR 3,722;
- Prime Minister's representation expenses - from EUR 1,048 to EUR 1,132;
- Ministers' representation expenses - from EUR 993 to EUR 1,072;

- Allowances to ministers for replacing another member of the Cabinet of Ministers – EUR 5,153.¹

The remuneration of the President and the Parliament deputies will remain unchanged in 2021.

The representative of opposition and non-governmental organisations do not agree with senior state officials remuneration increase. The Chairman of the Latvian Farmers' Union Armands Krauze requested the Parliament to reconsider the decision of senior state officials remuneration increase, preventing further salary increases next year.² The reason behind this request was made based on the Informative Report of the Ministry of Finance on possible tax changes in 2021-2023. Tax burden will increase rapidly for the low-income residents of Latvia, according to Latvian Farmers' Union. The controversy of the increase decision is that usual citizens, including medical and social workers are not able to receive the salary increase for years, while senior state officials of the ruling party can do it easily even in the COVID-19 crisis conditions, Armands Krauze stated. However, on November 23, the Parliament rejected the proposal of the opposition deputies and approved a salary increase for the following officials in 2021: Prime Minister, Ministers, Parliamentary Secretaries.

The Budget Committee supports lower social contributions

In addition to above mentioned disagreements, the Budget and Finance (Tax) Committee of the Parliament for the final reading supported amendments to the Law "On State Social Insurance", which envisages reducing social contributions by one percentage point, as well as setting minimum social contributions for people whose salary does not reach the state minimum wage, including the self-employed.³ A number of opposition deputies at the meeting of the commission stressed that the amendments are hasty, thoughtless and will create confusion among the population who will be affected by the changes. The amendments envisage a reduction of social contributions from the current 35.09% to 34.09% - by 0.5 percentage points for both employers and employees. Thus, the contribution rate for the employer is planned to be 23.59% and for the employee - 10.50%. The amendments also envisage the introduction of the minimum object of mandatory state social insurance contributions from next year - in the

¹ Diena.lv (23.11.2020) Vienam arguments, citam nē. Available at: <https://www.diena.lv/raksts/latvija/zinas/vienam-arguments-citam-ne-14252184>

² leta.lv (23.11.2020) Ministru un Valsts prezidenta algu pieaugums ir jāaptur. Available at: https://www.leta.lv/press_releases/B7757284-F7D5-4818-AC41-EBCC0221A7DC

³ lvportals.lv (17.11.2020) Budžeta komisija galīgajam lasījumam atbalsta mazākas sociālās iemaksas. Available at: <https://lvportals.lv/dienaskartiba/322068-budzeta-komisija-galigajam-lasijumam-atbalsta-mazakas-socialas-iemaksas-2020>

amount of three minimum wages per quarter. The minimum wage is planned to be EUR 500 starting from the next year. Meanwhile, the minimum social contributions are planned to be EUR 170 per month for employees who are insured under the general procedure. If a person will work for several employers or will be both self-employed and an employee at the same time, the declared income will be added together. If they are less than three minimum wages in a quarter, the difference between the paid social tax and the minimum tax will be covered by the employer from his own funds, the bill provides.

From July 2021, the contribution rate for pension insurance by the self-employed is set at 10 percent of income instead of the current five percent. For the self-employed, whose monthly income will not reach the minimum wage, the mandatory contributions are also provided in the amount of 10 percent for pension insurance from the minimum wage. The self-employed, whose income will exceed the minimum wage, will have to make mandatory contributions for the self-employed specified types of insurance at least from the minimum wage and in the amount of 10 percent of the income difference, according to the amendments.

It is planned to introduce minimum mandatory contributions in order to ensure a sustainable state social insurance policy, stipulating that for all taxpayers who actively participate in economic life, mandatory contributions would be made at least at the level of minimum mandatory contributions. It would also prevent the use of an exceptional model of different tax regimes for tax optimization, according to the annotation of the draft law. The Parliament has yet to decide on amendments to the law in the final reading. It is planned that the changes will take effect on January 1, 2021.

Abuse of authority in the Parliament

Juris Puce, Minister of Environmental Protection and Regional Development, made the decision to step down after Riga City Council member Maris Micerevskis, who recently left the party (For Development/ For), said on a TV interview that Puce had requested him to obtain a Riga parking permit for free.⁴ The owl decided to resign from the post of minister after publicly lamenting that he had not used or seriously asked the party members to arrange for him a parking pass for a deputy of the Riga City Council. At the moment, Artis Pabriks is Acting Minister of Environmental and Regional Development.⁵

4 Ieta.lv (12.11.2020) Environmental Protection and Regional Development Minister Puce steps down. Available at: <https://ieta.lv/eng/home/important/25171EC7-7FF7-4FF8-8176-7FEF07F17451/>

5 Vides aizsardzības un reģionālās attīstības ministrija (2020) Struktūra. Available at: <https://www.varam.gov.lv/lv/struktura>

The enhancement of Parliaments responsibilities regarding state of emergency

On November 17, at the joint meeting of the Government and the Crisis Management Council, the amendments to the law developed by the Ministry of Justice, which envisage reviewing and expanding the existing regulation during the emergency, were considered.

The amendments to the law provide that the restriction of publicly important services is permissible only to the extent necessary to ensure public health and safety, as well as the health and safety of persons involved in the provision and receipt of services.

At the same time, the amendments are intended to ensure parliamentary involvement in the evaluation of measures to limit the spread of Covid-19 infection. Therefore, the draft law stipulates that the Cabinet of Ministers will have to inform the Parliament Defense, Interior and Corruption Prevention Commission about the establishment of such restrictions that affect essential rights and legal interests of persons or that may significantly affect the state economy.

In its turn, the Parliament Defense, Internal Affairs and Corruption Prevention Commission will be able to propose to the Cabinet of Ministers to review the envisaged restrictions. The parliamentary committee will be able to make such a proposal if, in its opinion, it is possible to eliminate the risks to public security by measures that are less restrictive of the rights and legitimate interests of individuals and have less impact on the economy.

Summary

Thus, the main issue of November in the internal policy of Latvia was 2021 state budget adoption. Disagreements arose about the increase of senior state officials remuneration. Despite of the opposition request to reconsider it, the Parliament decided to approve the decision to increase state officials salaries.

Lowered social contributions supported by the Budget and Finance (Tax) Committee of the Parliament may cause confusion among the population who will be affected by the changes.

At the same time, the state of emergency due to Covid-19 is not the less important matter. Thus, one of the main issues on the Parliament's agenda is how to become more actively involved in setting restrictions during the emergency the situation with Covid-19 in order to balance the executive and legislative powers.

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5. Delfi.lv (19.11.2020) Saeima varētu aktīvāk iesaistīties ierobežojumu noteikšanā ārkārtējās situācijas laikā. Available at: <https://www.delfi.lv/news/national/politics/saeima-varetu-aktivak-iesaistities-ierobezojumu-noteiksana-arkartejas-situacijas-laika.d?id=52676595>