

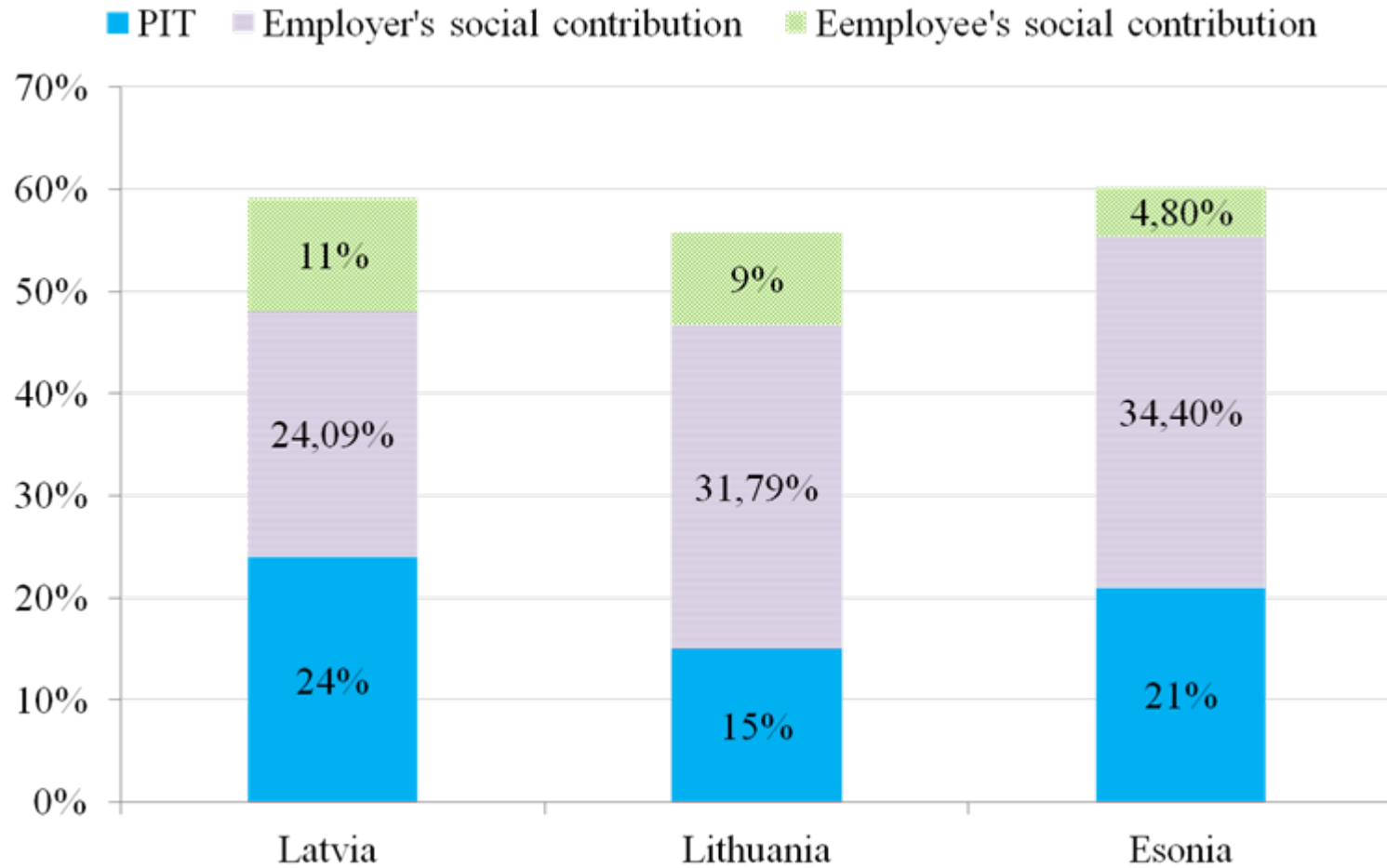
Dikļi
2013

Reduction of social inequality in Latvia

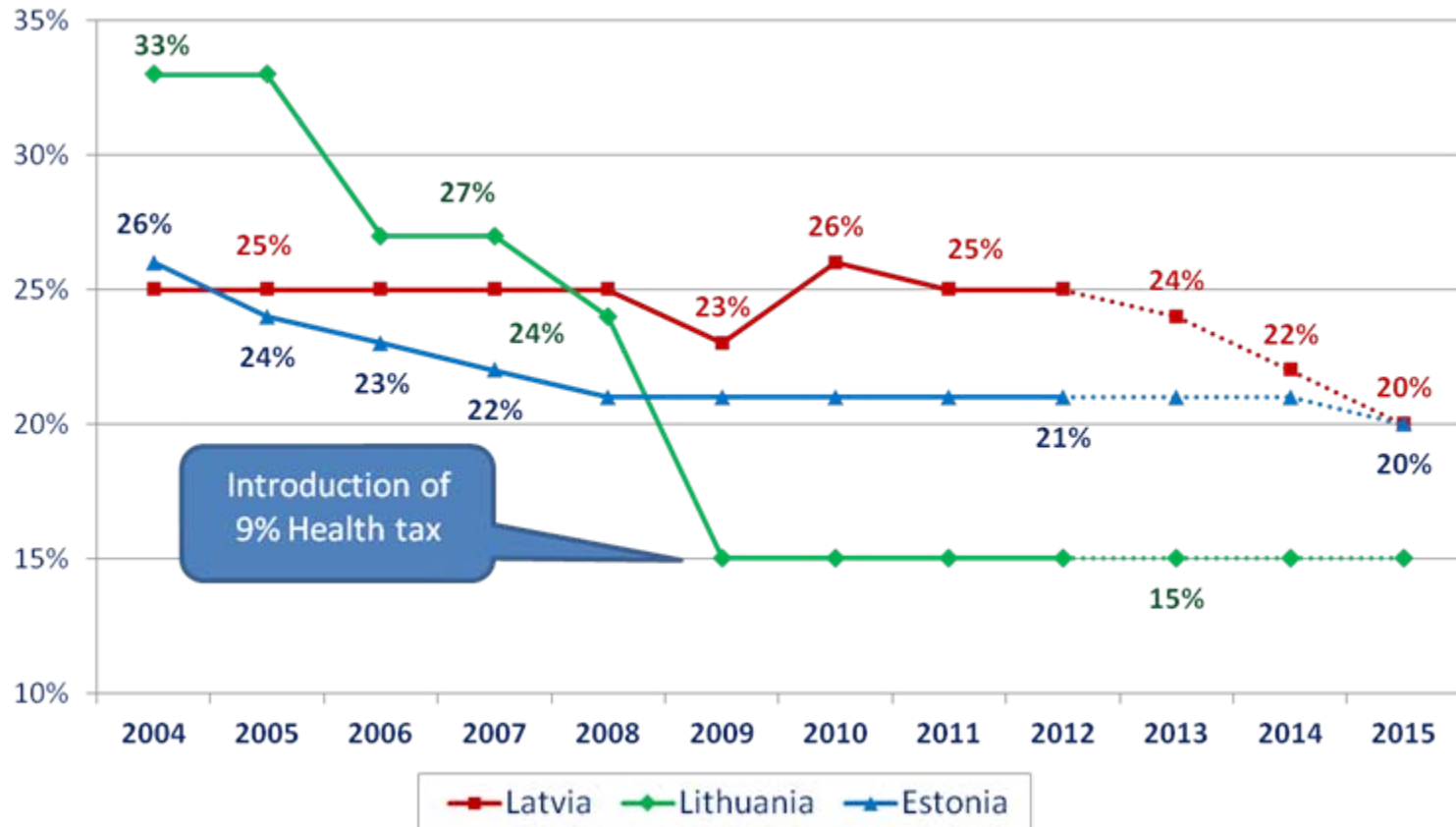
Personal income tax
And
Minimum wage

Data sources: Eurostat, Ministry of Finance Republic of Latvia

Labor tax rates in Baltic States, 2013



Development of personal income tax rates in Baltic States

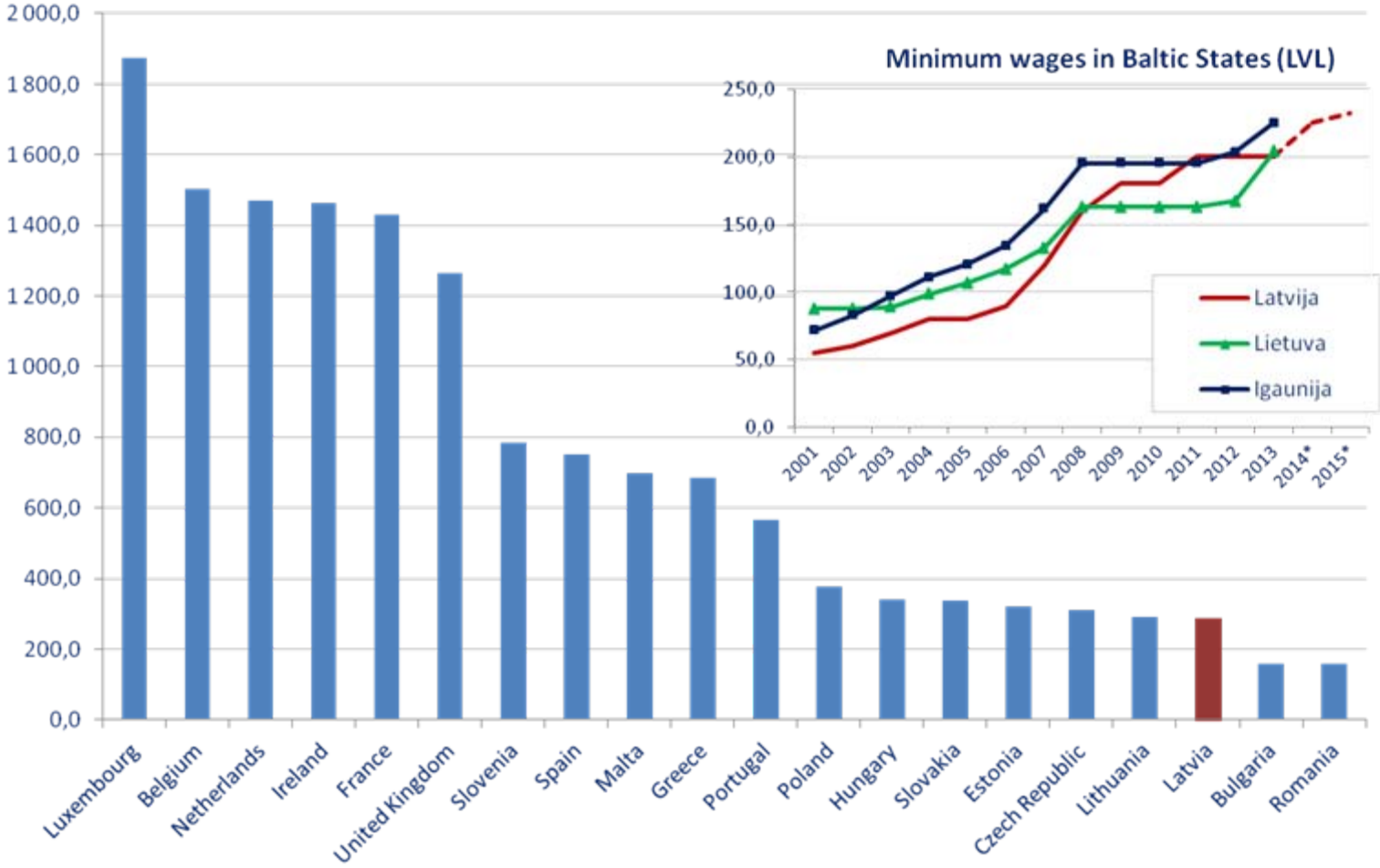


Scheduled reduction of PIT rate and fiscal impact

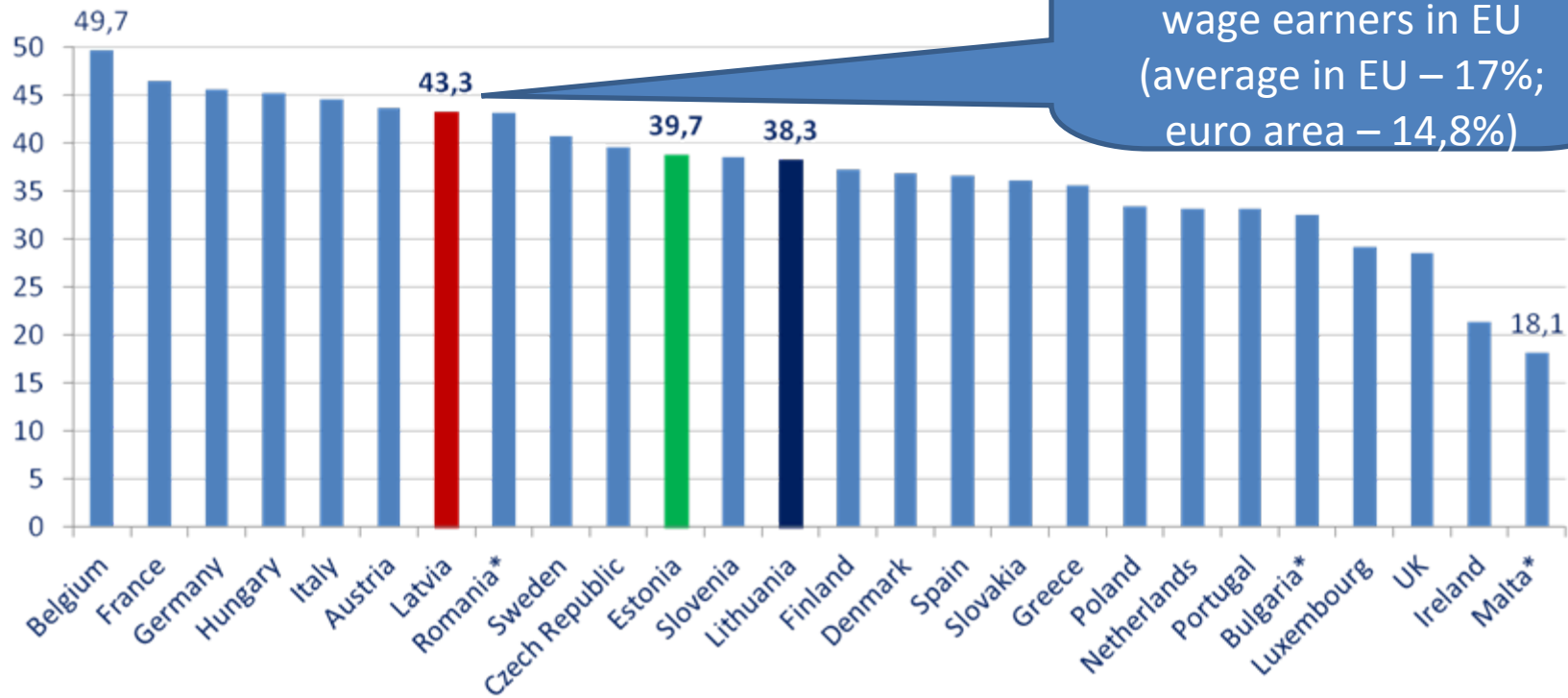
	Personal income tax rate	Fiscal impact, m LVL
01.01.2013.	24%	-30,5
01.01.2014.	22%	-67,7
01.01.2015.	20%	-75,2

Latvian parliament adopted these amendments to the PIT Law in May 2012.

Minimum wages in Europe, 2013



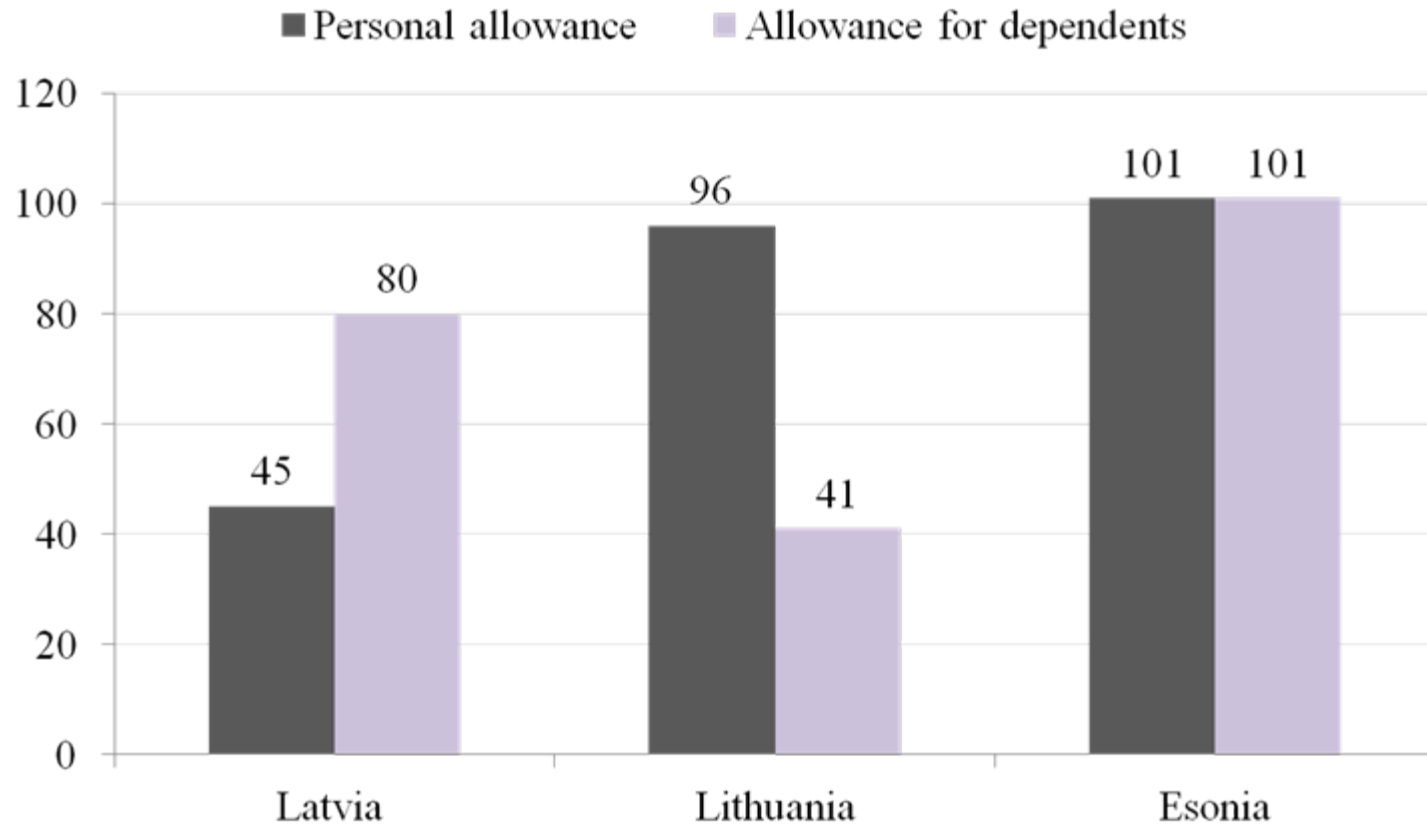
Tax impact for low wage earners in EU countries, 2011 (*2010), %



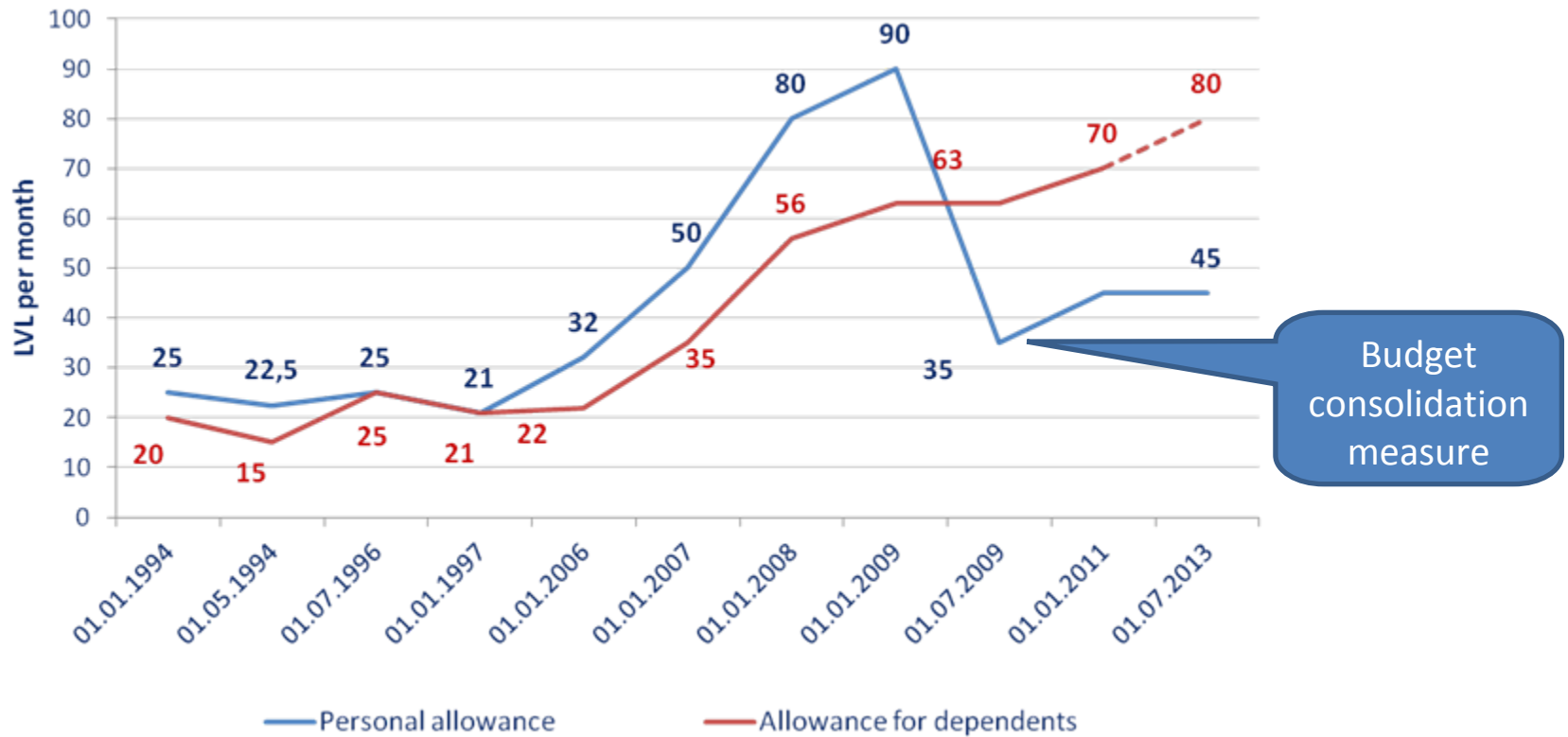
Latvia with 27,8% has the highest proportion of low-wage earners in EU (average in EU – 17%; euro area – 14,8%)

Low wage earners income defines as less than 67% of average wage in the country

Income Tax allowances in Baltic States, 2013



Income Tax allowances in Latvia, 1994-2013



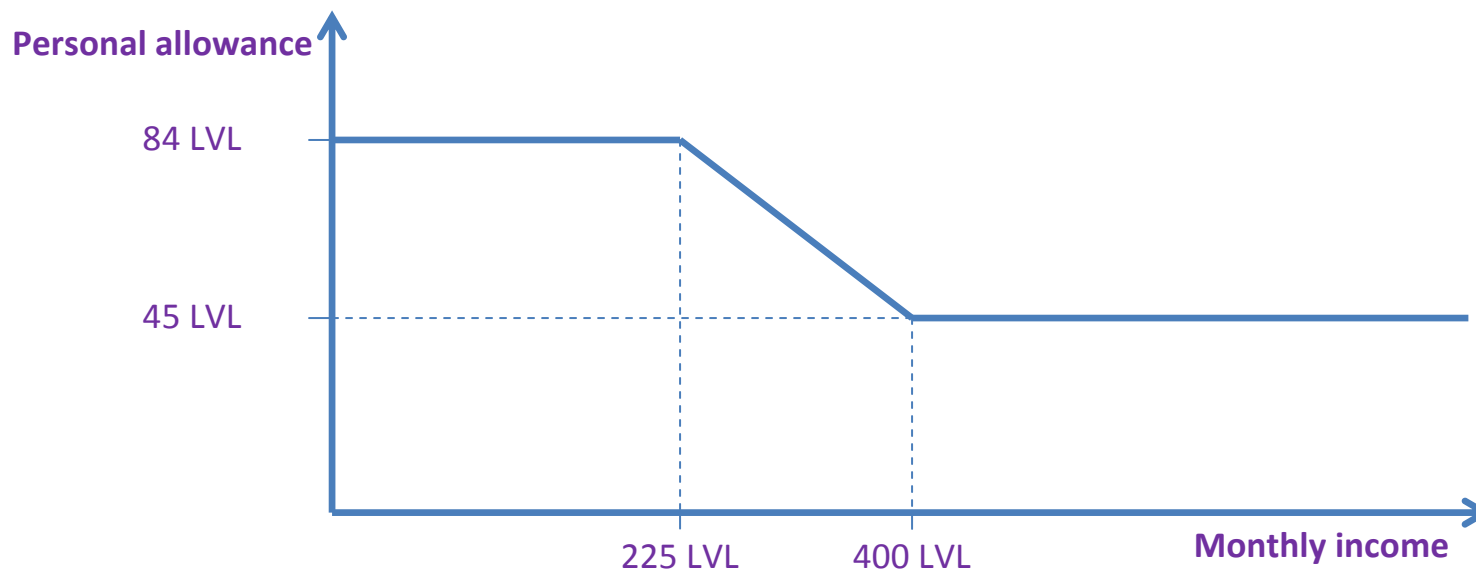
Proposal to reduce social inequality in Latvia

	2013	Proposal		
		2014		2015
		LVL/month	EUR/month	EUR/month
Minimum wage	200	225	320	330
Personal income tax rate, %	24%	22%	22%	20%
Personal allowance	45	up to 84	up to 120	up to 130
Allowance for dependents	80*	98	140	160

* From July 2013, currently 75 LVL

Differentiated personal allowance

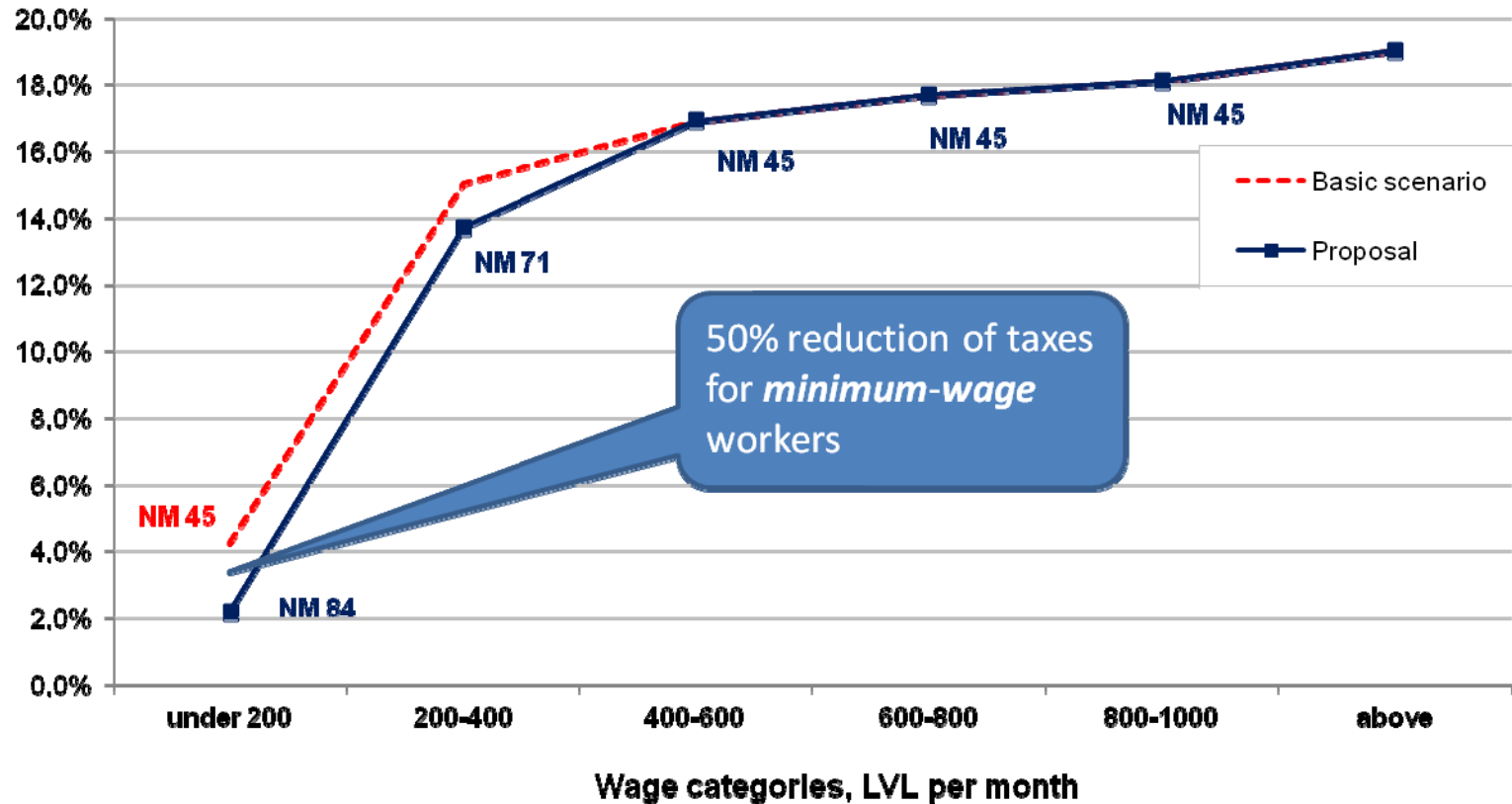
Income, LVL/month	Personal allowance, LVL/month
until 225	84
225,01 – 400	$\text{LVL } 84 - 0,22 \times (\text{monthly income} - \text{LVL } 225)$
above 400,01	45



Reduction of social inequality and fiscal impact, m LVL

	State budget	Municipal budgets	Social budget	TOTAL
Increase of minimum wage From 200 to 225 LVL/month	-6,1	+1,9	+13,3	+9,2
Increase of allowance for dependents From 80 to 98 LVL/month	-2,5	-9,9		-12,3
Increase of personal allowance From 45 up to 84 LVL/month	-4,8	-19,3		-24,1

Effective tax rate by wage categories



Effect on minimum- and low-wage workers

Gross salary, LVL/ month	Dependent persons	Net salary, LVL/month		Gain, LVL/month	Gain from higher personal allowance, LVL/month	TOTAL gain	
		2013	2014			LVL/month	%
200/225	0	146,1	166,1	20,0	103,0	343,1	20%
200/225	1	165,3	187,7	22,4	103,0	371,5	19%
200/225	2 or more	178,0	200,3	22,3	-	267,0	13%
353	0	249,7	255,1	5,4	28,5	93,1	3%
353	1	268,9	276,7	7,7	28,5	121,4	4%
353	2	288,1	298,2	10,1	28,5	149,8	4%
353	3	307,3	314,4	7,1	-	84,6	2%