

Compensation for remote work

March 2024

Commencing 1 January 2024, Latvia has introduced changes to the compensation structure for remote work as part of amendments to the Personal Income Tax Law. A pivotal aspect of these changes is the increase in maximum threshold of compensation exempted from taxation.

It is important to note that in Latvia, unlike some other European Union countries, no obligatory provision for the separate reimbursement of remote working expenses exists. The parties can still mutually agree in the employment contract that these expenses are either not covered or are already included in the agreed salary.

Addressing the cost of living

In response to a significant rise in the cost of living and prices for goods and services in recent years, a decision was made to elevate the tax-free compensation threshold from €30 to €40. Furthermore, the compensation up to above threshold is exempted from mandatory social insurance contributions. This tax-free option not only results in a slightly increased net income for employees, fostering a more favorable environment for remote work arrangements, but also eases financial burden for employers in respect to social insurance contributions.

Criteria for tax exemption

Qualifying for the tax exemption entails meeting specific criteria. Firstly, the employment contract or the employer's resolution must incorporate an employee's consent agreement regarding remote work, outlining the reimbursable expenses to be covered by the employer. Secondly, the employee's payroll tax book must be registered with particular employer. Furthermore, the amount of expenses related to remote working must be determined in proportion to the workload and the number of remote working days per month specified in the contract or resolution. Tax release does not apply for employee during the absence for more than 30 days.

These recent adjustments reflect a proactive response to the changing landscape of work. The decision to increase compensation for remote work and introduce tax exemptions demonstrates a commitment to supporting both employers and employees amidst the challenges of a dynamic economy.