

# Latvia: Is the downtime allowance seen as a benchmark for the minimum income level?

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EVIJA KĻAVE – EUROPEAN SOCIAL POLICY NETWORK

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*On 12 March 2020, Latvia declared a state of emergency due to COVID-19. Since then, the government has adopted several support measures, including a downtime allowance, intended to compensate for unpaid salaries and minimise the rising unemployment. The turbulent process surrounding the development of this measure, especially the eligibility criteria and the amount of the allowance, highlighted the deficiencies in the social protection provided by the state, and in the implementation of minimum income policy in Latvia.*

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## Description

The downtime allowance initiative was launched one week after the state of emergency was declared, when the parliament adopted a special law on “Measures for the Prevention and Suppression of Threat to the State and its Consequences due to the Spread of COVID-19”. Since the government was in an unprecedented situation, the initial conditions for receiving this allowance were set to reflect the eligibility criteria for enterprises, defined in the Public Procurement Law and based mainly on the enterprises’ tax obligations.

There was a great deal of confusion and controversy regarding who should receive this allowance and which criteria should be applied: sectors, severity of the crisis, size of companies, amount of benefit, etc. The government agreed to grant state aid to companies:

a) companies whose income from economic activity in the period from March till June 2020 had fallen by 30% due to the crisis; and

b) companies whose income from economic activity had fallen by 20% and which met at least one of the following three criteria: i) whose exports in 2019 constituted 10% of the total turnover or were not less than €500,000; ii) the average monthly gross salary paid to its employees in 2019 was not less than €800; and iii) whose long-term investments in fixed assets as of 31 December 2019 were at least €500,000.

The downtime allowance is equal to 75% of the average monthly gross salary of

the last 6 months before the state of emergency, but capped at €700/month. It is also granted to self-employed persons, micro-enterprise taxpayers (i.e. natural persons registered with the State Revenue Service as an economic agent, or a limited liability company, if they meet specific criteria [number of employees, turnover]), and individual merchants. The level of the allowance for these groups varies between 50% and 75% of the average income generated in the second half of 2019. The decisions on eligibility and the amount of the allowance are taken by the State Revenue Service.

On 23 April 2020, the parliament adopted new amendments watering down the eligibility restrictions for employers with regard to turnover. The new algorithm considers the company’s turnover on average over the last 12 months. If the company has been up and running for a shorter period of time, then the fall in turnover is calculated considering the months worked. In addition, it was decided that employees could also receive the allowance even if their employer had not met its tax obligations.

Meanwhile on 22 April 2020, the Minister for Welfare, Ramona Petravica, proposed the setting of a minimum threshold for the allowance equal to €130/month, which roughly corresponds to the official income threshold of a so-called “needy person” (€128.06). During the parliament debates, the opposition called for the minimum threshold to be raised to €300, and the maximum to

€1000. As a result, an additional allowance was added to the new Cabinet of Ministers' regulation No. 236: the downtime assistance allowance, a maximum of €180/month. If the downtime allowance received is lower than €180/month, the difference should be covered by the downtime assistance allowance. The maximum downtime assistance allowance is granted to those employees who are refused the downtime allowance, thus guaranteeing that all employees whose obligation to work has been temporarily terminated by their employer receive at least €180/month.

The average downtime allowance per employee paid in April was €286. The maximum allowance - €700 - was received by 1,247 employees (i.e. around 5% of all beneficiaries). 18,345 people, or 69% of all beneficiaries, received no more than the minimum wage - €430 (State Revenue Service, 6 May 2020.). €102 million was allocated from the state budget for these allowances at the end of March; by the end of April a little less than €8 million had been paid out. By 24 May, €26.4 million had been paid, and by 17 June the figure was €43.9 million.

## Outlook and commentary

At the very beginning, the downtime allowance was perceived by society as a fast and positive reaction to the forced changes in the employment situation. However, the eligibility conditions for receiving this support and its amount (for instance, 316 people received a benefit of less than €20) have only partly met the expectations and needs of potential beneficiaries, and in many cases did not reflect the real economic situation of employers and employees.

The introduction of the downtime allowance was hampered by

several factors. First, there is no universal standard, with "objective" criteria, for the minimum income level. There are several income thresholds: for example, the guaranteed minimum income is €64/month (from 2020), the minimum income level equal to 40% of median household equivalised income was €218/month (in 2018 [most recent year available; amount based on EU-SILC]), the official income threshold of a "needy person" is €128.06 (since 2009), etc. A "Plan for the minimum income level" has been adopted (22 August 2019), but has not yet been implemented. Thus, there are different standards of minimum monthly income, but none of these is applied when determining state social benefits and the corresponding downtime allowance.

The second reason for the initially restrictive eligibility criteria, as explained by the Minister of Finance Jānis Reirs (12 May 2020), was the diversity of employment and tax regimes in Latvia. Consequently, the conditions for receiving the downtime allowance had to be defined not only for employees working under the general tax regime, but also for those 250,000 employees working under one of the eight existing reduced tax regimes. Therefore, the eligibility criteria set for these allowances were less restrictive than those related to unemployment benefits. The eligibility criteria were gradually softened, due to several factors: the policymaking process following the principle of "learning by doing", the flaws in the employment and tax policies highlighted by the new crisis, the small number of applications for the allowance despite the prognosis, dissatisfaction among some employers and society. A person's employment record is not taken into account when calculating the amount of the allowance; this was a good thing for those people (especially young people) who had worked for less than 12 months.

Instead, a person is eligible from the moment he/she started an employment relationship, if he/she began to work before 1 March 2020. Thus, the government acknowledged by default that the minimum monthly income is €180/month, with no link to any other aforementioned low-income threshold.

In the absence of a political agreement on a universal minimum income threshold in Latvia, the government should consider using the minimum downtime allowance (€180/month) agreed by the parliament, as a benchmark for the minimum income level in the social inclusion policymaking process. Nevertheless, this is still not as high as the minimum income level set by the state (€218/month in 2018).

### Further reading

[Official state-administrated website on the spread of COVID-19 in Latvia-](#)

[Official website of the State Revenue Service](#)

Law on "Measures for the Prevention and Suppression of Threat to the State and its Consequences due to the Spread of COVID-19".

[Cabinet Regulation No. 165 "Regulations Regarding the Employers Affected by the Crisis Caused by COVID-19 which are Eligible for the Allowance for Downtime and Division of the Payment for Late Tax Payments in Instalments or Deferral Thereof for up to Three Years" \(26 March 2020\).](#)

Cabinet Regulation No. 236 "Regulations Regarding the Assistance Allowance for Downtime for Employed or Self-employed Persons Who have been Affected by the Spread of COVID-19" (23 April 2020).

### Author

[Evija Klave](#) (Baltic Institute of Social Sciences)

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