



Riga
Novemberth, 2020

**European Commissioner for Labour and Social Rights
Mr. Nicolas Schmit**

Dear Commissioner Schmit,

The Latvian Writers Union, the Artists' Union of Latvia and the Latvian Chamber of Commerce and Industry are writing to you urging to draw your attention to the tax reform planned by the government of Latvia. It is our collective opinion that it will adversely affect several social groups, subjecting people in Latvia to the risk of poverty and an even greater inequality than currently existing (about 23 % of population). This reform is included in the package of laws accompanying the draft budget law of 2021, and the Parliament of Latvia is planning to adopt it in the final reading by the end of November 2020, therefore we believe that this issue must be urgently addressed.

European institutions have reiterated that it is the small enterprises, the self-employed and the creative professions that have suffered the most during the Covid-19 pandemic. Unfortunately, the crisis continues and there is no end in sight.

The slogan of the planned reform is social solidarity, making sure that in the future all of us can receive funds accumulated during the active years of life for old age pensions. However, the rushed approach to the reform, its mechanisms of implementation and its outcome are at odds with the goal of the reform, and from 2021 and onwards it will deteriorate living and working conditions for a large part of society of Latvia. At the same time, we would like to emphasise that the formation of a pension capital is an important part of social policy; nevertheless, the currently envisaged manner of implementation in Latvia is bordering on human rights violations — the government of Latvia is planning to push a significant part of population towards deeper poverty.

According to the plans outlined in the tax reform, the Ministry of Welfare has envisaged to increase the numbers of low-income population and to introduce a mandatory requirement to register a low-income status for those, whose monthly income is below the minimum wage of EUR 500 (up to now, the minimum monthly wage was EUR 430, but in 2016, it was EUR 370 per month). This is not only contrary to good legislative practices, but it is also an impairment of human dignity, which is unacceptable in a European Union Member State. Moreover, social services whose task is to care for the most vulnerable people in society are burdened with the tasks of tax inspectors and must act as “rehabilitators”. In response to the said proposals, the Social Workers Association has called for the Minister for Welfare to step down.

The planned tax reform envisages:

1. The duty to pay a mandatory monthly social contribution of EUR 170 without exception, including from income foregone (regressive tax);

2. Limiting part-time employment (excluding the possibility to work to the extent and at a time suitable to the individual), imposing the duty on the employer to make a minimum social insurance contribution for work that is in fact not completed, substantially exceeding the rate of mandatory state social insurance contributions envisaged in the law.
3. The draft law prescribes that an employer, who employs part-time employees, shall pay non-personalised tax payment that the State Revenue Service is to send with a three-month offset. This will result in deprived opportunities to carry out cost price calculations, by determining the break-even point, thereby degrading the basic principle of doing business — economic activity is carried out with the objective to earn profit;
4. Creative professionals are to bear a disproportionate tax burden, by excluding the scope of eligible costs from legislation. This will prevent the possibility of simple inclusion of such costs into the tax calculation that occur in the process of creating the works, thereby imposing the duty to pay taxes from the entire proceeds from sale;
5. The tax reform is going ahead contrary to the reasoning, opinions and estimates offered by the largest organisation of businesses in Latvia — the Latvian Chamber of Commerce and Industry — and contrary to the recommendations of the European Commission and OECD to reduce income inequality;
6. Currently, the reform is based on assumptions, failing to assess the impact on the employed and small businesses. According to publicly available information, the reform will affect 270 thousand employees, which is 1/4 of all employees.

The development of this tax reform has transpired contrary to good legislative practices, without duly discussing it with the government's social and co-operation partners and failing to engage the public, as well as bypassing public consultation models of impact assessment of the reform.

In the light of the fact that, over the years, the European Commission has on multiple occasions addressed different governments of Latvia emphasising the need to introduce policies to reduce inequality and has recognised and understands that the creative sector (musicians, writers, artists etc.), the self-employed and small businesses have suffered most in this crisis, we urge you to look into this matter in more detail.

We would like to ask you to address the government of Latvia and to remind it of common European humanitarian values, as well as to urge it to postpone the planned tax reform in order to gain time for the drafting of a new legislative proposal that would be submitted for public consultation, by engaging social and co-operation partners and representatives of affected sectors, and such that is based on an impact assessment reflecting the effect of the proposed law on reduction of poverty in the country. The President of Latvia, too, has admitted that the reform is poorly drafted and should be suspended.

Sincerely yours,

Arno Jundze
Chairman of the Latvian Writers Union

Igors Dobičins
Chairman of the Artists' Union of Latvia

Jānis Endziņš
Chairman of the Board of the Latvian Chamber of Commerce and Industry