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VAT PROFILE, LATVIA

The VAT directive Latvia is implemented through the “Law on Value Added Tax”. In Latvia the VAT is referred to as “Pievienotās vērtības nodoklis” or “PVN”.

As of January 1 2013, a completely new VAT law comes into force. The new law is implemented to make the VAT provisions more compliant with the VAT Directive 2006/112/EC, following the structure and terminology of the Directive.

1. TAXABLE PERSONS

Contrary to the previous law “On VAT” according to which a person was considered a taxable person if it was registered for VAT purposes with the tax authorities, as of 2013 any person who independently carries out in any place any economic activity, whatever the purpose or results of that activity, is considered a taxable person. Taxable persons can be either registered or not registered with the tax authorities.

1.1 Registration threshold for domestic businesses

If the total value of taxable supplies of goods and services provided has not exceeded LVL 35,000 (approx EUR 49,800) during the preceding 12 months no registration is required by a domestic business. Businesses can however, register before reaching this threshold.

The registration is with the Latvian State Revenue Service (SRS). The following information has to be provided for the registration:

- a registration form;
- if an individual is registering, a copy of their passport or some other acceptable identification;
- if registration is occurring through a power of attorney, a copy of this document.

1.2 Registration threshold for foreign businesses

There is no registration threshold for foreign legal entities that need to register for VAT purposes in Latvia. In some circumstances registration can be avoided because of the application of the reverse charge mechanism or the appointment of a fiscal representative.

When registering, the following information has to be provided for:

- a registration form;
- if registration is occurring through a power of attorney, a copy of this document.

1.3 VAT grouping

The conditions for the registration of a Latvian VAT group are that the participants of the VAT group may only be taxable persons, the maximum number of participants in the VAT group is not limited and a taxable person may not be a participant of another VAT group at the same time.

A VAT group may be established if the total value of the taxable supplies of goods and services provided by at least 1 participant of the VAT group during the preceding 12 calendar months up to the month when a submission for the registration of the VAT group is submitted is at least LVL 250,000 (approx EUR 355,718).

The participants of the VAT group can be only companies registered in Latvia, and which are included in one group of companies (in accordance with the Group of Companies Law) or a branch of a foreign merchant (legal person) in the Republic of Latvia – provided that the foreign merchant, in accordance with the Group of Companies Law, is a member of the same group of companies in which the other participants of the VAT group are included. The VAT group is created by the entering into of an agreement by all entities with one being appointed the principal entity.

The VAT group members use their own VAT registration number for transactions with persons, which are not members of the group. The registration number granted to the VAT group shall be used only for drawing up of a tax declaration of the VAT group and for the payment of the tax. Group members are jointly and severally liable for payment of the group's VAT.

1.4 Fiscal representative

Latvia has introduced the concept of fiscal representation as of 2011. As of 2013 the Third country (non-EU) persons can be registered in Latvia only through a fiscal representative. A fiscal representative is a taxable person who, based on a written agreement, is liable for paying VAT to the tax authorities and represents a taxable person from another Member State or a non-EU country.

2. SIMPLIFICATION MEASURES

2.1 Consignment and call-off stock

There is a simplification for call-off stock in Latvia. Under this simplification, no VAT registration of the foreign supplier is required if the goods delivered to a taxable person in Latvia and in accordance with an agreement between the two parties, ownership passes to the receiver only when the goods are used or further sold by the receiver.

The Latvian recipient must however maintain separate accounting records for the goods held under call-off conditions, so they can be identified until ownership transfers.

In this situation when the goods are **used or sold** by the Latvian entity, the purchase is an intra-community acquisition. The supply by the foreign company is therefore treated as an intra-community supply and not as a local sale.

It is also required that the Latvian recipient of the consignment stock reports the received stock in its VAT return.

2.2 Simplified triangulation rules

In accordance with the Latvian law, an intermediary in a triangular transaction that is not registered in Latvia need not register in Latvia, if the final receiver of the goods is registered for VAT in Latvia. All parties to the triangulation must however be registered for VAT in the European Union (EU).

3. SUPPLIES OF GOODS WITH INSTALLATION

Installation supplies are treated as supplied where they are constructed or installed. In Latvia, there is no formal definition of the term “supply with installation or assembly”. In determining whether the services are related to immovable property or installation services are provided, the authorities would examine the works actually performed.

4. DISTANCE SALES THRESHOLD

The distance sales threshold for Latvia is LVL 24,000 (approx EUR 34,149).

5. ACQUISITION THRESHOLD

The threshold for the acquisition of goods when no VAT registration is required for non-taxable legal persons, taxable persons engaged in exempt activities and flat-rate farmers from suppliers established in another Member State is LVL 7,000 (approx EUR 9,960). If the threshold has been exceeded by a single transaction and it is anticipated that in the next tax year the threshold will not be exceeded then registration is not required.

6. EFFECTIVE USE AND ENJOYMENT

Latvia has introduced effective use and enjoyment rules as follows.

The following services rendered to a non-EU registered entity and which does not perform business activities will be deemed to be supplied at the recipient’s place of residence, declared place of residence or place of permanent residence:

- transfers/assignments of copyrights, etc;
- advertising services;
- consultancy, etc;
- data processing, information;
- obligation to refrain from business activity or right;
- banking, financial services, except hire of safes;
- supply of staff;
- hiring out of movable property, except all means of transport;
- electronic telecommunications services and radio and television broadcasting;
- services provided electronically;
- financial and insurance services but not the hire of safes;
- provision of access to electricity and gas distribution systems, as well as transfer and distribution services and other directly associated services.

The place of supply of electronically provided services will be in Latvia if a non-EU registered entity supplies these service to a non-taxable Latvian entity that does not perform business activities.

In regard to the supply of goods transport services, fixed line telephone services, moveable property hire and motor vehicle hire services, the place of supply will be the location of the actual use and enjoyment of these services.

7. BAD DEBT RELIEF

It is possible after complying with nine conditions, to reclaim (reduce VAT payable to the state) VAT paid to the state on bad debts from unrelated parties, where the debt for one client is less than LVL 300 (approx EUR 426) without VAT.

Amounts exceeding LVL 300 may also qualify for VAT recovery, however in this case (and in addition to the above conditions) a certification must be obtained from a law enforcement officer (court bailiff) confirming that it is impossible to collect the debt.

Following the usual procedure it is possible once a year – in the March declaration of the following year. If the debtor goes bankrupt or insolvent – the VAT can be claimed in the same month. The VAT relief applies to the debts incurred after 1 January 2009.

8. VAT RATES

8.1 Standard rate

The standard rate in Latvia is 21%.

8.2 Reduced rate

The reduced rate in Latvia is 12% and applies for instance to:

- certain medication;
- certain medical equipment;
- heating energy to individuals;
- hotel accommodation;
- books, magazines and newspapers;
- specialised products for children.

8.3 Zero rate

Latvia has introduced zero rates for the following supplies and services:

- exports and intra-community supplies of goods;
 - services related to export or import or transit through free zones or customs warehouses;
 - goods supplied to travellers resident outside the EU under retail export schemes or through tax-free shops;
 - services in the framework of inward processing on behalf of principals resident outside the EU;
 - sea-going vessels and aircraft and related goods and services;
 - supplies made to customers with (diplomatic) tax immunity;
 - supplies of monetary gold to central banks;
 - goods under customs control or VAT warehousing arrangements;
 - international passenger transport by seagoing vessel and airplane;
 - provisioning of sea-going vessels, with the exception of vessels for inshore fishing with foodstuffs;
 - services to goods under customs control.

9. DEDUCTION OF INPUT VAT

9.1 Non-recoverable input VAT

The input VAT is not deducted for:

- VAT incurred in regard to the performance of exempt transaction or a non-business purpose;
- 60% of input VAT incurred in regard to representation expenses;
- 20% of input VAT that a taxable person has paid on the purchase of a car used for his business purposes, its repairs, maintenance and fuel.

9.2 Overpaid input VAT

Overpaid input VAT is accumulated at the end of each declaration period and can be carried forward to the next taxation period. At the end of the taxation year, the amount of excess is refunded to the taxpayer within 30 days of the filing of the final declaration of the year.

Under certain conditions it is possible to claim a refund of excess input VAT during the taxation year or offset it against other taxes payable.

9.3 Capital goods – adjustment periods

For immovable property – 10 years.

For movable property – if the value without VAT exceeds LVL 50,000 (approx EUR 71,144) – 5 years.

Latvia does not have an adjustment period for services.

10 REVERSE CHARGES

10.1 Reverse charge mechanism – supply of natural gas, electricity, heating and cooling

The supply of natural gas, electricity, heating and cooling supplied to a “taxable dealer” in Latvia will be subject to reverse charge. The place of supply will be the place where their economic activities are performed, their fixed establishment or their place of permanent residence if they have none of the preceding. This will also apply to the above goods being supplied to a taxable person whose use of them is trivial or insignificant.

If the above circumstances do not apply, the place of supply will be the place where the goods are actually consumed.

10.3 Reverse charge mechanism – non-resident suppliers

In Latvia, reverse charge can apply if the recipient of the goods and (or) services is a taxable person resident or established in Latvia.

10.4 Reverse charge mechanism – local reverse charge

Latvia has introduced local reverse charge to the supply of certain types of wood products, construction services and the sale of scrap metal.

11. INVOICE REQUIREMENTS

11.1 Invoice information

A VAT invoice has to contain the following information:

- the date the invoice was issued;
- the sequential numbering of the invoice, which provides a unique identification of the invoice;
- the name (natural person – given name, surname, personal identity number) and legal address (natural person – declared place of residence) of the supplier of the goods or provider of the services;
- the VAT registration number of the supplier of the goods or provider of the services;
- the name (natural person – given name, surname, personal identity number) and legal address (natural person – declared place of residence) of the receiver of the goods or services;

- the VAT registration number of the receiver of the goods or services;
- the date of the supply of the goods or date of the provision of the service if such differs from the date of the writing of the invoice, or the date when a payment has been received in advance if such date is known and it differs from the date of the writing of the invoice;
- a description, the amount (volume) and unit of measurement of the goods supplied or services provided;
- the price (value of 1 unit without VAT) of the goods supplied or services provided;
- discounts applied if they are not deducted from the value of 1 unit;
- the VAT rate applied;
- the calculated amount of VAT payable;
- the total of the transaction without VAT;
- special wording or reference to the VAT law or the directive, if zero VAT, reverse charge, or other special regime applies.

11.2 Time limits for invoices

An invoice needs to be issued before the 15th day of the month following the month in which the supply or service was rendered.

11.3 Self billing

Self-billing is introduced in the Latvian VAT law as of 1 January 2013. In order to apply the self-billing option, the parties should have a written agreement on the invoicing procedures (it may be enclosed also as a separate paragraph in the agreement on the supply of goods and services).

11.4 Storage of invoices

Original invoices need to be stored for 5 years. Invoices relating to immovable property and the accounting records for these properties need to be kept for a period of 10 years.

11.5 Electronic invoicing

Invoices can be issued electronically and must contain the same information required of a paper invoice. Both parties to the transaction must agree in writing as to the form of acceptable electronic signature that will be used to authenticate the invoice (it may be included in the agreement on the supply of goods and services).

12. VAT COMPLIANCE

12.1 VAT return period

VAT return period is quarterly. If the VAT payer is involved in cross-border transactions or if the total value of the transactions exceeded LVL 35,000 (approx EUR 49,800) within the last 12 months, monthly VAT returns should be filed. Where the prior year transactions did not exceed LVL 10,000 and the person does not supply goods or provide services within the EU, the return period is bi-annual.

The performance of some specified transactions can result in the return period becoming monthly.

VAT returns should be submitted electronically via Electronic Declaration System (EDS).

12.2 Filing of VAT return and payment

The VAT due is payable by the 20th day of the month following the VAT return period (e.g. the VAT for the 2nd quarter of 2012 has to be paid to the VAT authorities by 20 July 2012).

12.3 European Sales List

The European Sales List has to be submitted with the taxpayer's monthly VAT return as an attachment to the return (Attachment 3 "PVN 2") and contains the total amount of supplies to each transaction partner located in another EU Member State. No transaction threshold applies to the filing of the European Sales List.

12.4 National recapitulative statement

There is a form of national recapitulative statements in Latvia. With the taxpayer's monthly or quarterly VAT declaration, an attachment to the declaration (Attachment 2 "PVN 1") must detail every transaction over LVL 1,000 (EUR 1400) that is the supply or receipt of goods or services to or from an entity located in Latvia.

12.5 Tax assessment period

The tax assessment period in Latvia is 3 years back.

13. SPECIAL RULES

13.1 Postponed accounting on import

There is a special tax regime for import of goods introduced in Latvia. In order to apply a special tax regime for imported goods, a taxable person for VAT purposes must submit an application to the tax authorities.

A permit to apply a special VAT regime for imported goods will be issued to a taxable person:

- who is registered for business activities in Latvia;
- who is a registered for EDS;
- who has no tax arrears for previous tax periods on the date on which the application is submitted or who pays any such tax arrears within 5 business days from the date on which the application is submitted;
- whose officers with signatory rights have no convictions for economic crimes;
- who within specified time limits submits the information returns or additional information necessary for determining the amounts of VAT payable to the state budget or the amounts of overpaid VAT.

13.2 VAT warehouse

There is no concept of VAT warehouses introduced in the Latvian VAT Law.

14. PENALTIES

14.1 Penalties for not filing a VAT return or a European Sales Listing in time

For failing to file within the time required or filing incomplete documents, a fine up to LVL 150 (approx EUR 213) can be imposed on individuals. Legal persons can be fined from LVL 50 (approx EUR 71) up to LVL 300 (approx EUR 426).

For not filing the required documents at all a fine from LVL 100 (approx EUR 142) up to LVL 250 (approx EUR 355) can be imposed on individuals. Legal persons can be fined from LVL 250 up to LVL 500 (approx EUR 710).

14.2 Penalties for not paying VAT in time to the VAT authorities

If the VAT is not paid in time, the penalties in the amount of 10%, 30% or 50% of the VAT payable depending on the VAT amount not paid can be applied. Late payment penalties of 18% a year also apply for the each day of the delay.

14.3 Penalties on VAT assessments when VAT is not reported correctly

If the VAT is not paid up to the correct amount, the VAT authorities can also impose a penalty of 10%, 30% or 50% of the VAT payable depending on the VAT amount not paid.

15. INTRASTAT

In Latvia, separate Intrastat returns have to be submitted to the Central Statistical Bureau of Latvia.

15.1 Intrastat threshold

The Intrastat threshold for arrivals and dispatches is LVL 100,000 (approx EUR 149,000). Additional details are required if the special thresholds are met – LVL 1,800,000 (EUR 2.5 million) for the arrivals and LVL 2,400,000 (EUR 3,400,000) for dispatches.

15.2 Intrastat data to be reported

The information which needs to be reported for both the arrival and the dispatches statistics is:

- the Member State of origin/destination;
- the country of origin;
- the nature of the transaction;
- the mode of transport;
- the 8-digit commodity code of the goods;
- the net weight of the goods;
- the invoice value of the goods in euros;
- statistical value;
- delivery terms;
- supplementary units.