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VAT PROFILES, BALTIC STATES

VAT PROFILE, ESTONIA

The VAT directive is implemented in Estonia through the Value Added Tax Act (in Estonian “Käibemaksuseadus”). VAT in Estonian is “käibemaks” or “KMS”.

1. TAXABLE PERSONS

1.1. Registration threshold for domestic businesses

If the total value of taxable supply exceeds EUR 16,000 as calculated from the beginning of a calendar year, an obligation to register as a VAT payer will arise for the person as of the date on which the supply reaches that amount. However, a person may submit the application for registration as a VAT payer to the tax authority even if the registration obligation has not yet arisen.

The registration takes place with the Estonian Tax and Customs Board.

1.2. Registration threshold for foreign businesses

In general, there is no registration threshold for foreign persons, however, if a foreign business with no permanent establishment in Estonia create taxable supply here and such supply is not taxed in Estonia upon the acquisition of goods or receipt of services by a VAT registered buyer, then the foreign person is obliged to register as a VAT payer as of the date on which the taxable supply was created.

The registration obligation does not arise:

- upon distance selling to an Estonian person; or
- if all the taxable supply of the person is taxable with zero rate VAT, unless it is intra-community supply of goods; or

- in case a third country taxable person provides electronically supplied services and if the person has been registered in another Member State according to the special arrangements for imposing VAT on electronically supplied services.

1.3. VAT grouping

A VAT group may consist of entities which are engaged in business in Estonia and are:

- VAT payers; and
- parent company and its subsidiaries within the meaning of the Commercial Code; or
- economically and organisationally related taxable persons, where at least 50% of the shares or votes of each entity are owned by one and the same person or if persons are bound by franchise agreement.

A taxable person may belong simultaneously only to one VAT group.

Transactions made between the VAT group members are not considered supply, thus no invoices need to be issued. Members of the VAT group must submit VAT returns together and will be jointly and severally liable for payment of VAT by the due date.

The VAT group members are granted only one VAT number for transactions with non-group members. The personal VAT registration number granted to each member (except VAT number of the representative) will be suspended until the VAT group is deregistered.

1.4. Fiscal representative

A non-resident may have a tax representative that needs to be licensed by the tax authorities. The tax representative can be a legal person established in Estonia or a branch of a foreign legal person entered in the Estonian commercial register. A tax representative must be solvent and have an impeccable reputation and must not have any tax arrears.

All the rights and obligations of a non-resident registered taxable person extend to the tax representative. The tax representative is required to ensure that the principal's monetary and non-monetary obligations concerning taxes are fulfilled within the set term and in full.

2. SIMPLIFICATION MEASURES

2.1. Call off stock

In general, if stocks are brought into Estonia for customers who are registered for VAT here, then the supplier does not need to register in Estonia. The Estonian customer then pays VAT on the acquisition. However, there are no specific call off stock simplification rules.

2.2. Simplified triangulation rules

Pursuant to the Estonian VAT legislation the simplified triangulation rules may be applied if the following conditions are met:

- a taxable person established in Member State A sells goods to a taxable person established in Member State B which then in turn sells the goods to a taxable person established in Member State C;
- the goods in question are transported directly from Member State A to Member State C to the acquirer in the triangular transaction;
- the reseller B is not registered for VAT in Member State C;
- the buyer C in the triangular transaction pays VAT on the acquisition of goods.

3. INSTALLATION SUPPLIES

Under the Estonian VAT Law, supply with installation means that the goods are transferred to a particular Member State and installed or assembled by or on behalf of the transferor in that state, and the cost of installation or assembly exceeds 5% of the taxable value of the transaction. If the

above conditions are fulfilled, then such goods are treated as supplied in the country where they are assembled or installed.

Reverse charge is applicable if the goods are installed or assembled in Estonia and acquired from a taxable person of another European Union (EU) Member State.

4. DISTANCE SALES THRESHOLD

The distance sales threshold is EUR 35,000.

5. ACQUISITION THRESHOLD

The acquisition threshold of goods by non-taxable person by way of intra-community acquisition (except excise goods and new means of transport) is EUR 10,000 calculated from the beginning of a calendar year. If the before mentioned threshold has been exceeded the person must register as a taxable person with limited liability.

6. EFFECTIVE USE AND ENJOYMENT

The following services are considered to be rendered in Estonia if the effective use and enjoyment takes place in Estonia:

- grant of the use of intellectual property or transfer of the right to use intellectual property;
- advertising services;
- services of consultants, accountants, lawyers, auditors and engineers, and translation services, as well as data processing and the supplying of information;
- financial services, except for leasing safes, or insurance services, including reinsurance and insurance intermediation services;
- allowing use of manpower;
- the hiring or leasing of or establishment of a usufruct on movables, except means of transport;
- electronic communications services, including assignment of rights to use transmission lines;
- electronically supplied services;
- intermediation;
- allowing access to natural gas and electricity network connections, or transmission of natural gas or electricity through networks and services directly related thereto.

7. BAD DEBT RELIEF

Bad debt relief for VAT purposes is not available in Estonia.

8. VAT RATES

8.1. Standard rate

The standard VAT rate in Estonia is 20%.

8.2. Reduced rate

The reduced rate of 9% is applicable to:

- supply of books and workbooks used as learning materials;
- supply of medicinal products, contraceptive preparations, sanitary and toiletry products, and medical equipment or medical devices intended for the personal use of disabled persons;
- supply of periodic publications, excluding publications mainly containing advertisements or personal announcements, or publications the content of which is mainly erotic or pornographic;
- supply of accommodation services or accommodation services with breakfast.

8.3. Zero rate

Zero rate VAT is applicable to:

- export of goods;

- intra-community supply of goods;
- the supply of sea-going vessels navigating in international waters, except pleasure craft used for purposes other than business;
- the supply of aircraft operating mostly on international routes;
- the supply of goods which are transferred and transported to diplomatic representatives in another EU Member State, consular agents (except honorary consuls), representatives or representations of special missions or international organisations recognised by the Ministry of Foreign Affairs, diplomatic representations or consular posts of foreign states, special missions or community institutions;
- goods placed in free zones or free warehouses;
- excise goods placed in excise warehouse;
- certain goods listed in Annex V of the Council Directive 2006/112/EC placed in a VAT warehouse.

9. DEDUCTION OF INPUT VAT

9.1. Non-recoverable input VAT and partially recoverable input VAT

Input VAT can not be recovered if it is:

- related to goods or services relating to the reception of guests or the provision of meals or accommodation for employees;
- not related to the VAT payer's business.

If goods or services are used for the purposes of both taxable supply and supply exempt from tax, input VAT may be partially deducted from the calculated VAT. Partial deduction may be based on the proportion of the supply of the taxable person effected in Estonia and foreign countries where the input VAT can be deducted to the total amount of the supply effected by the person in Estonia and foreign countries.

9.2. Excess input VAT

If VAT calculated during a taxable period is less than the amount of input VAT deductible by the taxable person during the same period, the overpaid amount of VAT may be carried forward to the following tax periods or may be recovered. The excess VAT can be recovered by presenting a respective application to the tax authority. Generally, the excess VAT will be refunded by the tax authority within 30 days as of the receipt of an application. In the case of a refund exceeding EUR 640,000, a written decision must be made and signed by the head of the regional structural unit of the Tax and Customs Board.

9.3. Tangible assets – adjustment periods

For immovable property and goods and services thereto – 10 calendar years.

For other fixed assets and goods and services thereto – 5 calendar years.

The first calendar year is deemed to be the period of time between the date of acquisition of the assets and the last day of the current calendar year.

The period of time between the date of acquisition of the fixed assets and the last day of the current calendar year is deemed to be the first calendar year.

10. REVERSE CHARGES

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

The supply of natural gas, electricity, heating or cooling energy to a distributor in Estonia is subject to reverse charge. The place of supply is in Estonia, if the goods are supplied via a network to the

Estonian distributor. Under the Estonian VAT Law, a distributor is a person, who purchases natural gas, electricity, heating and cooling energy primarily for resale, and whose own use of these goods is trivial or insignificant.

10.2. Reverse charge mechanism – B2B services

As a general rule, in case of B2B provision of services the buyer is entitled to calculate VAT under the reverse charge mechanism in his country of residence. In order to apply this rule, the buyer must be:

- a foreign person engaged in business who is not registered as a taxable person in Estonia; and
- has no fixed place of business in Estonia through which the person conducts business here.

If an Estonian VAT taxable person has identified a foreign entity for the purposes of a B2B transaction, it can issue an invoice with a zero rate VAT. Invoice must contain an explanation or a reference to a legal norm that allows for zero rate application.

10.3. Reverse charge mechanism – non-resident suppliers

Estonian taxable persons and foreign taxable persons registered as VAT payers in Estonia are obliged to calculate VAT under the reverse charge mechanism for the goods or services supplied in Estonia by a non-resident supplier.

10.4. Reverse charge mechanism – specific domestic rules

Estonia has domestic reverse charge rules that apply to the supply of immovable or its parts, and metal scrap.

11. INVOICE REQUIREMENTS

11.1. Invoice requirements

A VAT invoice should contain the following data:

- the serial number and date of issue of the invoice;
- the name and address of the issuer and his VAT registration number;
- the name and address of the acquirer of goods or the recipient of services;
- the VAT number of the acquirer of goods or the recipient of services if he is liable for tax upon the acquisition;
- the name or description of the goods or services;
- the quantity of the goods or extent of the services;
- the date of dispatch of the goods or provision of the services and (or) an earlier date of receipt of full or partial payment for the goods or services if this date can be determined and differs from the date of issue of the invoice;
- the price of the goods or services exclusive of value added tax and any discounts, if these are not included in the price;
- the taxable amount broken down by different rates of value added tax together with the applicable rates of VAT, or the amount of supply exempt from tax;
- the amount of VAT payable in euros.

11.2. Time limits for issuing invoices

An invoice should be issued within 7 calendar days as of the date on which the goods are dispatched or made available to the purchaser or the services are provided. As a general practice, electricity, heating, and water suppliers invoice their clients on a monthly basis.

11.3. Self billing

Estonian law allows that the invoice is issued by the acquirer of goods or the recipient of services on the condition that, before supply is effected, there is a written agreement between the two parties. The agreement must contain the procedure for the acceptance of the invoice by the taxable person.

11.4. Storage of invoices

The minimum term of storage of invoices is 7 years.

11.5. Electronic invoicing

Invoices can be issued in an electronic form and must contain the same information as a paper invoice. Electronic invoices must be reproducible in writing.

12. VAT COMPLIANCE**12.1. VAT return period**

VAT returns should be submitted to the tax authority and VAT must be paid by the 20th day of the month following the period of taxation.

The first taxable period for a taxable person or taxable person with limited liability is the period from the date of VAT registration until the end of the same calendar month. If the number of calendar days in the first taxable period is less than fifteen, the taxable person or taxable person with limited liability may declare the supply of the first period together with the supply of the following taxable period and submit 1 return for the 2 taxable periods.

12.2. Filing of VAT return and payment

VAT returns must be submitted electronically, if the person has been a taxable person for at least 12 months. The VAT returns may be submitted on paper upon approval of the tax authority.

12.3. European Sales Listing

The deadline for the submission of European Sales Listing is the 20th date of the month following the month of supply.

12.4. National recapitulative statement

There are no national recapitulative statements in Estonia.

12.5. Tax assessment period

The tax assessment period in Estonia is 3 years. In the event of intentional failure to pay or withhold an amount of tax, the tax assessment period is 6 years.

The tax assessment period starts to run on the due date for the submission of the tax return which was not submitted or which contained information that caused an amount of tax to be calculated incorrectly.

13. SPECIAL RULES**13.1. Postponed accounting on import**

The Value Added Tax Act allows the application of a special tax regime for transactions concerning the importation of goods. In order to apply for the special tax regime the taxable person must submit a respective application to the Tax and Custom Board. Additionally, the following criteria must be fulfilled:

- the taxable person must have been VAT registered for at least 12 consecutive months prior to the submission of the customs declaration under which VAT on imported goods will be declared;
- in the 12 months prior to filing the customs declaration, the taxable person's zero rated supply has formed at least 50% of the total supply;
- the taxable person has been submitting tax returns electronically for at least 12 months prior to the submission of the customs declaration;
- the taxable person does not have any outstanding (unfiled) tax returns;
- the taxable person does not have any tax arrears for the previous 12 months.

13.2. Tax warehouse

Estonia offers a tax warehouse regime under which VAT is not applicable to the supply of goods placed in a tax warehouse. The location of the warehouse must be approved by the tax authority, and only goods stipulated in Annex V of the Council Directive 2006/112/EC can be stored in the warehouse to enjoy VAT benefits.

14. PENALTIES

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

Failure to present VAT returns or European Sales Listing at due time may result in a penalty of up to EUR 13,000.

14.2. Penalties for not paying VAT in time

If a taxable person fails to pay VAT by the due date, the taxable person is required to pay interest on the amount of tax outstanding by the due date. The rate of interest payable is 0.06% per day.

14.3. Penalties on VAT assessments when VAT is not reported correctly

If the VAT is not paid up to the correct amount, the tax authority may fine the taxable person with the late interest fee which is 0.06% per day.

15. INTRASTAT

Intrastat reports have to be submitted to the Estonian Statistics Board.

15.1. Intrastat threshold

For 2011, the annual threshold for Intrastat reporting is EUR 130,000 for arrivals and EUR 90,000 for dispatches.

15.2. Intrastat data to be reported

The information to be reported is:

- code of the goods;
- the Member State of origin/destination;
- country of origin;
- nature of the transaction;
- net weight (kilograms);
- the invoice value of the goods;
- currency;
- statistical value;
- means of transport;
- delivery terms and place.

VAT PROFILE, LATVIA

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

1. Taxable persons

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 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 companies, 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 with effect from 1 January 2011. A fiscal representative is defined as 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 which is defined as 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. In these circumstances the supplier of the goods need not register for VAT in Latvia.

There is no time limit in relation to the simplification. The Latvian recipient must however maintain separate accounting records for the goods held so they can be identified until ownership transfers. In this situation when the goods are “purchased” 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.

In regard to consignment stock, a supply or acquisition will not be deemed to have occurred in Latvia if the foreign entity transfers the stock to Latvia for no longer than 24 months and prior to the expiration of this period returns the stock to the country from which it originated.

2.2 Simplified triangulation rules

In accordance with Latvian law, an intermediary in a triangulation 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. Installation supplies

Construction (immovable property) and 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 services are related to immovable property or installation services are provided, it will be an examination of what has actually occurred that will determine the correct classification.

On both supplies the reverse charge may apply.

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 by 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 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. This is possible only once a year – in the March declaration of the following year, but can apply to debts that arose after 1 January 2009.

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.

8. VAT rates

8.1 Standard rate

The standard rate in Latvia is 22%.

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;
- gas supplies to individuals.

8.3 Zero rate

Latvia has zero rates for (among others) 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 recoverable in case of:

- 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 petrol for a car used for his business purposes.

9.2 Excess input VAT

Excess input VAT is accumulated at the end of each declaration period and is applied by the SRS to reduce other taxes payable by the taxpayer. If none are payable, the excess is carried forward to the next taxation period where it is again applied to reduce other taxes payable. 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 for the year.

Under certain conditions it is possible to claim a refund of excess input VAT during the taxation year.

9.3 Capital goods – adjustment periods

For immovable property – 10 years following the year of first use.

For movable property – if the value exceeds LVL 50,000 (approx EUR 71,144) – 5 years following the year of first use.

Latvia does not have an adjustment period for services.

10 Reverse charges

In Latvia there are several 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.

10.2 Reverse charge mechanism – B2B services

The following entities will be regarded as a business in relation to the application of the place of the services for B2B services provided by a Latvian VAT taxable entity to a qualifying business entity:

- businesses (with taxable or exempt activities);
- businesses which also have non-taxable activities (for instance a holding company);
- legal entities (non-businesses) with a foreign VAT identification number.

Once a Latvian VAT payer has determined the foreign entity is a qualifying B2B entity it can issue a zero rated invoice and must include wording in the invoice detailing the legal section under which the invoice is being zero rated.

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. In principle the reverse charge does not apply if the customer is a non-resident company with a Latvian VAT identification number. The reverse charge applies to all supplies of goods and services which are subject to VAT in Latvia.

10.4 Reverse charge mechanism – specific domestic rules

Latvia has domestic reverse charge rules that apply to the supply of certain types of wood products. At the time of writing it is anticipated that from 1 July 2011, legislative changes applying domestic reverse charge rules to construction services and the sale of scrap metal will become operative.

11. Invoice requirements

11.1 Invoice requirements

A VAT invoice has to contain the following information:

- the date the invoice was written;
- 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 registration number of the supplier of the goods or provider of the eservices in the Latvian State Revenue Service Register of Value Added Tax Taxable Persons;
- 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 registration number of the receiver of the goods or services in the Latvian State Revenue Service Register of Value Added Tax Taxable Persons or other EU Member State register of VAT taxable persons if such exists;
- 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 that have been 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;
- if a tax rate of 0% is applied to the supply of goods or services provided – the invoice requires a reference to the Section of the Law in accordance with which the zero rate is applied or a reference to the relevant Article of Council Directive 2006/112/EC of 28 November 2006 on the common system of value added tax, or another reference indicating the applicable law.

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

Latvian law does not provide any specific rules for self billing. Therefore, where a recipient issues an invoice it must comply with the usual procedures.

11.4 Storage of invoices

Invoices need to be kept available 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 in an electronic form and must contain the same information required of a normal 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.

12. VAT compliance

12.1 VAT return period

Where the total value of the prior year's taxable transactions exceeded LVL 35,000 (approx EUR 49,800) the VAT return period for the following year will be monthly. Where the value of transactions was between LVL 10,000 (approx EUR 14,228) and under LVL 35,000 the return period is quarterly.

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 yearly.

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

All Latvian VAT payers must submit an electronic VAT return.

12.2 Filing of VAT return and payment

The VAT due has to be received on the bank account of the VAT authorities on the 20th day of the month following the VAT return period (ie the VAT for the 2nd quarter of 2011 has to be received by the VAT authorities on 20 July 2011). The same applies for a VAT return that is filed electronically.

Foreign registered businesses have to pay the VAT on the same basis as a local business. The same applies for the VAT return.

12.3 European Sales Listing

The European Sales Listing has to be submitted with the taxpayer's monthly or quarterly VAT declaration as an attachment to the declaration (Attachment 3 "PVN 2") and detail every transaction that is the supply of goods or services to an entity located in another EU Member State. No transaction threshold applies to the filing of the attachment.

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 that is the supply or receipt of goods or services to or from an entity located in Latvia. No transaction threshold applies to the filing of the attachment.

12.5 Tax assessment period

The tax assessment period in Latvia is 3 years. This means that in the year 2011, the last open year for assessments is the year 2008.

13. Special rules

13.1 Postponed accounting on import

The Law on Value Added Tax allows the application of a special tax regime for transactions involving the import of goods. In order to apply a special tax regime for imported goods, a taxable person for VAT purposes must submit an application to the SRS.

It is possible to submit an electronic application for the special tax regime for imported goods using the State Revenue Service's electronic declaration system (EDS).

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 as an EDS client;
- 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

Latvia has Customs/VAT warehouses. There are 6 types of warehouses:

- A, B and F warehouses which are public; and

- C, D and E warehouses which are private.

The warehouse can be used for the storage and transfer of specific types of predetermined goods.

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 VAT authorities can issue a penalty of 10% of the VAT due.

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 issue a penalty of 10% of the unpaid VAT.

15. Intrastat

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

15.1 Intrastat threshold

The Intrastat threshold for arrivals and dispatches is LVL 70,000 (approx EUR 98,600).

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 statistics system (information on the flow of goods);
- the net weight of the goods;
- the invoice value of the goods in euros;
- statistical value;
- delivery terms;
- supplementary units.

VAT PROFILE, LITHUANIA

The VAT directive is implemented in Lithuania through the Law on VAT (in Lithuanian “Pridėtinės vertės mokesčio įstatymas”). VAT is called in Lithuania “Pridėtinės vertės mokestis” or “PVM”.

1. TAXABLE PERSONS

1.1. Registration threshold for domestic businesses

Registration may be compulsory or voluntary.

Lithuanian taxable person has an obligation to register as a VAT payer in Lithuania and charge VAT to his customers starting from the month in which his revenue from supplies of goods and services exceeded LTL 100,000 (approx EUR 29,000). The request to register as a VAT payer must be filed with a local tax office before the revenue exceeds the threshold. However, registration is not necessary in case only goods and services, for which a customer has an obligation to count and pay VAT, are supplied.

Furthermore, Lithuanian taxable person or non-taxable legal entity must register as a VAT payer in Lithuania if in Lithuania it acquires goods from other Member States that do not fall under the application of exemption (please see paragraph 5).

1.2. Registration threshold for foreign businesses

There is no registration threshold for foreign taxable persons, thus foreign taxable person have an obligation to register as a VAT payer in Lithuania before performing first transaction subject to Lithuanian VAT. Obligation to register does not arise in case only goods and services, for which a customer has a duty to count and pay VAT, are supplied or if the supply is VAT exempt or taxed with a zero rated VAT.

Furthermore, foreign taxable person or non-taxable legal entity must register as a VAT payer in Lithuania if in Lithuania it acquires goods from other Member States if it does not fall under the application of exemption (please see paragraph 5).

1.3. VAT grouping

No VAT grouping provisions are available in Lithuania.

1.4. Fiscal representative

Foreign taxable person must register as a VAT payer in Lithuania through its subsidiary established in Lithuania or through a fiscal representative. Requirement to have a fiscal representative is not applied to taxable person established in the European Union (EU).

2. SIMPLIFICATION MEASURES

2.1. Call off stock

Call off stock simplification exists in Lithuania since adoption of the changes to the Law on VAT in force as of 1 January 2007. However the Law on VAT does not allow consignment stock simplification.

The transfer of goods to the call off stock located in Lithuania is treated as an intra-community acquisition by the local customer if the following preconditions are met:

- the goods are stocked in a call off stock which is owned or otherwise possessed by the local customer (VAT payer);
- the goods are taken away from the stock by the local customer within 12 months after stocking;
- the local customer is the only legal entity which exploits the transferred goods in its economical activity.

Consequently, if the goods are delivered to the consignment stock, the supplier of the goods will not have to register for VAT in Lithuania and he will be able to issue zero rate VAT invoices.

2.2. Simplified triangulation rules

Under Lithuanian VAT legislation the simplified triangulation rules may be applied if the following conditions are met:

- all three parties participating in the triangulation (the so called ABC contract) are registered as VAT payers in different Member States; and
- Lithuanian VAT payer is either the intermediary (A), the supplier (B), or the buyer (C);

- the goods sold by A to B and by B to C are being transported directly from A to C.

3. INSTALLATION SUPPLIES

When the supplied goods have to be assembled or installed by the supplier or another person acting on behalf of the supplier, such goods are treated as supplied in the country where they are assembled or installed. Reverse charge is mostly applied to such supplies with an international element. No reverse charge is available for domestic supplies.

Construction of a new building or reconstruction of a building resulting in its substantial improvement is treated as a supply of goods. This supply is generally subject to reverse charge when supplied to the owner of the building.

4. DISTANCE SALES THRESHOLD

The distance sales threshold is LTL 125,000 (approx EUR 36,200).

5. ACQUISITION THRESHOLD

If an individual or a legal entity acquires goods from another Member State, it is required to register as a VAT payer in Lithuania unless the following conditions are met:

- 1) a buyer is:
 - a farmer performing activities taxable under the special countervailing tariff scheme; or
 - a taxable person performing activities not conferring the right to VAT deduction; or
 - a non-taxable legal entity; and
- 2) taxable amount of all the goods acquired during the previous taxable period did not exceed LTL 35,000 (approx EUR 10,150).

6. EFFECTIVE USE AND ENJOYMENT

6.1. The below mentioned services are considered to be rendered in Lithuania if the effective use and enjoyment takes place in Lithuania:

6.1.1. services rendered by a non-EU resident to a non-taxable person residing in Lithuania:

- (a) electronically provided services;
- (b) telecommunication services;
- (c) radio and television broadcasting services;
- (d) non-standard software development, sale and other transmission services.

6.1.2. services rendered by a non-EU resident to a taxable person residing in Lithuania:

- (a) carriage of goods, additional transportation services and agency in these contracts services;
- (b) long term lease of means of transport.

7. BAD DEBT RELIEF

Bad debt relief for VAT purposes is not available in Lithuania. Therefore, in case of a bad debt a taxpayer is only entitled to reduce taxable profit for corporate income tax purposes by the amount of a bad debt including VAT.

8. VAT RATES

8.1. Standard rate

The standard VAT rate in Lithuania is 21%.

8.2. Reduced rate of 9%

The reduced rate of 9% is applicable to:

- energy supplied to residential premises for the purpose of heating, the supply of hot water to residential premises or cold water for the preparation of hot water and heating energy used to warm up this water (until 31 December 2011);
- supply of books and non-periodical press;
- supply of hotel-type accommodation and special accommodation services (until 31 December 2011).

8.3. The reduced rate of 5%

The reduced rate of 5% is applicable to pharmaceutical products.

8.4. Zero rate

Zero rate is applicable to:

- export of goods;
- intra-community supply of goods;
- goods (the value of which does not exceed a certain amount set by the Lithuanian Government) exported by persons who have their permanent residence outside the EU;
- supply, maintenance, repairs, modification, modernisation and hiring-out of sea-going vessels used for transportation of passengers or goods on international routes or for other services for reward, of sea-going fishing vessels and of vessels used for rescue or assistance at sea;
- supply and hiring-out of aircraft to taxable persons who receive more than half of their annual income from transporting passengers and (or) cargo on international routes and related services;
- resources supplied to vessels and aircrafts mentioned above;
- transportation and other services directly related to export and import of goods;
- transportation of passengers and their luggage on international routes;
- insurance and financial guarantees directly linked to the exportation of goods;
- goods and services destined for diplomatic missions, consular institutions, EU institutions and international organisations as well as the staff of those organisations and their family members;
- gold destined for the System of the European Central Banks and the European Central Bank;
- goods supplied to Lithuanian recipients of sponsorship who transport them as sponsorship outside the EU to organisations which could be recipients of sponsorship under Lithuanian laws;
- maintenance and recycling of goods under inward-processing.

9. DEDUCTION OF INPUT VAT

9.1. Non-recoverable input VAT and partially recoverable input VAT

Input VAT can not be recovered if it is:

- Related to goods and services intended for entertainment and representation, if the expenses incurred can not be deducted from income when counting the taxable profit.
- Related to purchased or leased passenger cars designed for the transportation of not more than 8 persons (excluding the driver), including off-the-road vehicles, if the purpose of their use is not rendition of services of transportation of passengers or driving instruction, reselling or lease. This exclusion is not applicable for the special purpose motor vehicles.
- Related to the passengers transportation by motor vehicles, unless the taxable person is involved in that transportation as a commissionaire.
- Paid on behalf of a third party.

If goods and services are used for both taxable and exempt purposes, input VAT may be deducted in proportion to annual turnover derived from taxable and all supplies.

9.2. Excess input VAT

Primarily, input VAT may be deducted from the payable output VAT. If the amount of input VAT exceeds the amount of output VAT payable, the amount of excess input VAT may be carried forward

to the following tax periods or recovered. Input VAT can only be recovered for current and previous 5 years. The request to recover input VAT must be accompanied by a valid VAT invoices confirming input VAT paid. The excess VAT is recovered by the tax authorities in 30 days from the application or if a tax audit is carried out – in 20 days after its completion.

9.3. Tangible assets – adjustment periods

For immovable property – 10 years from the taxable period in which input VAT was deducted.

For other tangible asset – 5 years from the taxable period in which input VAT was deducted.

10. REVERSE CHARGES

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

If gas, electricity, heating and cooling energy is supplied by non-EU resident to Lithuanian VAT payer whose purpose of acquisition is reselling or if place of a real use of gas, electricity or energy supplied to Lithuanian VAT payer for non-reselling purposes is in Lithuania, the place of supply is considered to be in Lithuania and therefore the buyer is entitled to calculate VAT under the reverse charge mechanism in Lithuania.

10.2. Reverse charge mechanism – B2B services

Under the general rule, in case of B2B rendition of services the buyer is entitled to calculate VAT under the reverse charge mechanism in his residence country. For the purpose of application of this rule, the buyer is considered to fall under the definition of “business” if it is:

- legal entity or individual established in Lithuania and carrying out only economic or composite activities;
- non-taxable legal entity registered as a VAT payer;
- taxable person acquiring goods and services being used in its non-taxable activities.

10.3. Reverse charge mechanism – non-resident suppliers

Lithuanian taxable person and foreign taxable person registered as a VAT payer in Lithuania or having a fixed establishment in Lithuania is required to calculate VAT under the reverse charge mechanism for the goods and (or) services supplied in Lithuania by a non-resident person.

10.4. Reverse charge mechanism – specific domestic rules

Lithuanian VAT payer is required to deduct and pay input VAT if:

- it buys goods from a legal entity for which a bankruptcy or reorganisation procedures have been started;
- it gains property as a contribution;
- it is an owner of the building and gains a substantial improvement of it;
- it buys ferrous or non-ferrous metals scrap or materials resulting from their recycling;
- it buys timber.

11. INVOICE REQUIREMENTS

11.1. Invoice requirements

Invoice has to contain the following data:

- date on which the invoice was issued;
- invoice serial number;
- VAT identification number, name and address of a supplier;
- VAT identification number, name and address of a buyer;
- description of goods delivered or services rendered;
- date of the supply if it does not coincide with the date of the invoice;
- price of the good or service per unit (excluding VAT), discounts not included in the price;

- taxable amount of the goods;
- applicable VAT rate;
- amount of VAT in national currency;
- grounds for the application of an exemption, zero rate or reverse charge (reference to the corresponding article of the Law on VAT or of the 2006/112/EC Directive or another indication of the reason of such application);
- VAT identification number, name and address of the fiscal representative (if applicable);
- reference to the corresponding article of the Law on VAT or 2006/112/EC Directive under which a special margin scheme is applicable;
- identification data of the motor vehicle if it is supplied to another Member State.

11.2. Time limits for issuing invoices

The invoice should be issued immediately after supply of goods or services. However, in case of a long-term services and permanent supply of electricity, gas, heating and cooling energy invoice may be issued for the services or goods supplied during the period of 1 month and therefore it should be issued till the 10th day of the following month.

11.3. Self billing

Under the Law on VAT contractors may agree that the issuer of the invoice will be the buyer. There are currently no additional requirements or restrictions related to such invoicing.

11.4. Storage of invoices

The minimum term of storage of invoices is 10 years.

11.5. Electronic invoicing

Electronic invoices may be used if origin authenticity and content integrity is assured by using one of these means: 1) safe electronic signature; or 2) specialised equipment for acceptance and transmission of electronic data (EDI); or 3) software of commercial bank registered in Lithuania or other company, institution or organisation.

Invoice send to the contractor by electronic mail or by other means (in pdf or other format) is not considered to be an electronic invoice. Such invoice is only an electronic version of ordinary invoice and therefore the invoice should be also kept in printed form.

12. VAT COMPLIANCE

12.1. VAT return period

A standard VAT return period for legal persons is 1 month. However, if annual income of a taxable legal person did not exceed LTL 200,000 (approx EUR 57,920) VAT return period under the request of the taxable person may be changed to 6 months. Furthermore, VAT return period may be changed to a period not longer than 60 days with accordance to the taxable period of the parent foreign taxable person.

A standard VAT return period for natural persons is 6 months, which under the request of a taxable person may be changed to 1 month.

12.2. Filing of VAT return and payment

Under the general rule VAT return should be filed and VAT paid within 25 days from the end of the VAT return period.

However, if the average amount of VAT paid during 3 months in a row exceeds LTL 100,000 (approx EUR 29,000) or LTL 200,000 (approx EUR 58,000) (for taxable persons who receive income only from construction and installation works and for taxable persons who receive at least 50% of income from supply of agricultural products or services), advance payments of one third of the average amount of VAT that should have been paid under the declarations of past 3 months have to be. The advance

payments have to be made 3 times a month. This rule is applicable only when the VAT return period is 1 month.

12.3. European Sales Listing

The European Sale Listing has to be submitted on a monthly basis until 25th day of next month.

12.4. National recapitulative statement

There are no national recapitulative statements in Lithuania.

12.5. Tax assessment period

The tax assessment period in Lithuania is current and previous 5 years. Therefore, in the year 2011 the last open year for assessment is the year 2006.

13. SPECIAL RULES

13.1. Postponed accounting on import

Legal entities have a right to a delayed payment of VAT, if a guarantee for the payment of import VAT is provided. It means that import VAT can be paid not at the time of importation but until the 16th day of the next month for all the goods imported during the previous month.

13.2. VAT warehouse

There is no VAT warehouse regime in Lithuania.

14. PENALTIES

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

There is no separate penalty for the late filling of VAT return.

14.2. Penalties for not paying VAT in time

Under the general rule, interest is calculated (for the 2nd quarter of the year 2011 default interest rate is 0.03% per day) for late payment of VAT.

14.3. Penalties on VAT assessments when VAT is not reported correctly

In addition to late payment interest (please see 14.2) a fine of 10% to 50% of the amount of underpaid VAT may be imposed depending on the type and circumstances of misdemeanour.

15. INTRASTAT

Intrastat reports have to be submitted to the Department of Statistics under the Lithuanian Government.

15.1. Intrastat threshold

For 2011 the annual threshold for reporting is LTL 550,000 (approx EUR 159,300) for arrivals and LTL 600,000 (approx EUR 173,780) for dispatches.

15.2. Intrastat data to be reported

The information to be reported is:

- VAT payer's data;
- data of intermediary;
- reporting period;
- code of the good under the Combined Nomenclature;
- description of the good;
- contract;
- delivery conditions;

- mean of transport;
- country of consignor;
- country of consignee;
- country of origin;
- net weight (kilograms);
- value;
- statistical value.