

LATVIA

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AT A GLANCE

Name of the tax	Value Added Tax
Local name	Pievienotas vertibas nodoklis
Date introduced	1 May 2004
Date of membership in EU	1 May 2004
Administered by	Ministry of Finance (www.fm.gov.lv)
<u>VAT rates</u>	
Standard	21%
Reduced	12%
Other	Exempt with and without credit
VAT Number format	LV40001234567
VAT return periods	- monthly, if the taxable value for the year is more than €50,000 and there are transactions between EU countries - quarterly, if the taxable value for the year is between €14,000 and €50,000 - half of a year, if the taxable amount does not exceed €14,000
Thresholds registration	None
Recovery of VAT by non established	
Businesses	Yes

HISTORY OF VAT

Latvia introduced VAT on 1 May 2004 when Latvia joined to EU. Starting from the 3 January 2013 the basic rules for the VAT in Latvia are based on the Council Directive 2006/112/EC.

SCOPE OF VAT

VAT is a tax chargeable on taxable supplies or services made in Latvia by taxable persons. Credit is given for tax paid to other businesses and the net balance is payable or reclaimable – normally on a monthly basis.

REGISTRATION

Legal entities or individuals, partnerships, or groups of persons engaged in economic activity could register in VAT taxable persons register.

A person must be registered in the register of VAT taxable persons if:

- the value of taxable transactions has exceeded €50,000 during a previous 12 month period;
- purchase of goods made by a person in the territory of the EU reaches €10,000.

A person of another Member State of the EU has to get registered in the register of VAT taxable persons in the Republic of Latvia, if:

- goods subject to excise duty in Latvia are delivered to a non-taxable person;
- goods are delivered to a non-taxable person and **they are installed or mounted inland;**
- transport services, transport related and goods related (assessment, repairs, maintenance) services are provided to a non-taxable person;
- services related to real estate to any person in Latvia.

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.

Group VAT registration

VAT grouping occurs where two or more corporate bodies, usually companies or limited liability partnerships are treated as a single taxable 'person' for VAT purposes.

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 previous 12 calendar months up to the month when a submission for the registration of the VAT group is submitted is at least €360,000.

VAT group is treated in the same way as a single company registered for VAT on its own.

In general, the members of the group each have to have an establishment in Latvia.

Advantages of group registration are:

- The representative member accounts for any tax due on supplies made by the group to third parties outside the group. This can be helpful where accounting is centralised.
- The group is treated as a single taxable person and therefore it is not normally necessary to account for VAT on goods or services supplied between group members.
- There is one single VAT return for the whole group.

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.

VAT RATES

- Standard rate of VAT is 21%.
- Reduced rate of VAT is 12%. Rate is applicable to certain medications and medical device supplies in accordance with the list approved by the Cabinet, educational literature, as well original literature editions, thermal energy, electrical power supplies, natural gas supplies to inhabitants, save natural gas for motor vehicles, inland public transport, products for infants in accordance with the list approved by the Cabinet, as well as in other cases prescribed by law.

- 0% rate is applicable to export of goods, services related to export, import and transit carriage, services provided outside of Latvia or passenger transport and tourist agency intermediation services, as well as carriage of international passengers and in other cases prescribed by law.

PLACE OF SUPPLY RULES

- Where goods dispatched or transported, for delivery of products (including the supply of goods within the European Union) is the place where the goods are at the start of the dispatch or transport of goods to the consignee.
- If the goods are not dispatched or transported, the place of delivery of goods is the place where the goods are at the time of supply.
- Distance selling of goods supply is deemed Member State where the goods are at the end of the dispatch or transport to the consignee.
- If the acquisition was made within the European Union, the purchase of goods from the Member State where the goods are at the end of the dispatch or transport of goods to the consignee.
- The place where the acquisition was made within the European Union shall be inland if the goods are dispatched or transported from another Member State to the inland.
- If the non-registered taxable person, or a person who is not a taxable person in the course of a new vehicle purchase within the European Union, the acquisition of this vehicle from the Member State in which the vehicle is recorded.
- Place of importation shall be the Member State in which the concluding of imports of goods under a customs procedure.
- If the service is provided to a taxable person, the place of supply is the address of the recipient of the service.
- If the service is provided to a person who is not the taxpayer, the place of supply is the address of the provider of the service.
- For the services - tickets to cultural, artistic, sporting, scientific, educational, entertainment or other activities of a similar nature (such as fairs, exhibitions), the place of supply is the address of the actual venue.

TIME OF SUPPLY RULES

- Delivery of the goods is the moment of actual delivery of the goods.
- If the supply of goods within the European Union will remain in place over a long period, and more than one calendar month, that the transaction has taken place at the end of each calendar month until such time as the delivery of goods has been completed.
- Purchase of goods within the European Union has taken place, when in fact the acquisition was made, but no later than the time when the goods are received.
- Supply of a service has occurred, when the service delivered to the recipient.

- Receipt of the service has taken place if the service has been received.
- Construction service is provided when signing construction object acceptance act for each of the construction phase, but at least every 12 months.
- Transport services within the European Union or exports or transit of goods related to the transport service is provided when the goods have been delivered to the consignee and commercial acceptance is confirmed.
- Import of goods has occurred, when the goods are released for consumption.

EXEMPTIONS

Tax is not imposed on the following supplies of goods and services:

- social care, professional and social rehabilitation, social assistance and social work services, provided to the inhabitants by the institutions funded by the state and local governments
- fees for children attending pre-school institutions
- services of educational courses provided by State-accredited educational institutions
- certain cultural events
- medical services and medicine related services
- gambling
- insurance services provided by insurers and insurance agents;
- payments by persons for the rent and maintenance of residential premises
- scientific research
- certain financial transactions and services related to investments into capital
- sale of real estate, except the first sale of unused real estate and sale of construction land
- **phonogram producer consideration and author remuneration for works of art created by authors, as well as consideration received by performers**
- dentistry services
- foreign financial aid and VAT exempt import of goods, as well as certain other transactions

RECOVERY OF INPUT VAT

A taxable person can deduct VAT invoiced to him on the value of good or services acquired insofar as these goods or services are used only for the needs of his taxable business purposes.

60 % from VAT for business representation expenses and 20 % from VAT for passenger car transport expenses are not eligible for Latvian VAT recovery.

COMPLIANCE OBLIGATIONS

Specific rules are laid down as to the form and content of VAT invoices. These are to ensure that all the necessary information is recorded for the determination of the rate of tax to be applied, the liability of the supplier to account for the output tax due on the supply, and the entitlement of the recipient to reclaim all or any of it as input tax.

The registered VAT payer have to use sequential numbering to identify the numbers you use. You can use both numbers and letters for invoice numbers, and use more than one sequence of numbers, but each must form part of a unique and consecutive series. If you cancel an invoice, you must keep a copy of it to show that you have not broken the numbering sequence.

Copies of all tax invoices issued and received must be retained for at least five years unless a shorter period (normally at least three years) is agreed with Latvian State revenue Service.

Tax invoices must contain the following information:

- the date of issuance of the invoice;
- the invoice number;
- the name of the goods supplier or services provider (for a natural person – first name, surname, personal ID number) and the legal address (for a physical entity – the place of permanent residence);
- the registration number of the goods supplier or services provider in the register of persons subject to VAT in the State Revenue Service of Latvia;
- the name of the recipient of goods or services (for a natural person – first name, surname, personal ID number) and the legal address (for a natural person – the place of permanent residence);
- the VAT registration number of the recipient of goods or services;
- the date of goods supply or services provision;
- the title, quantity (amount) and unit of measurement of the goods supplied or services provided;
- the price (the value per one unit exclusive of the VAT) of the goods supplied or services provided;
- the discount applied, in case the discount is not deducted from the value of a single unit;
- the VAT rate applied;
- the calculated amount of VAT;
- the total amount of the transaction exclusive of the VAT.

Invoices could be issued in electronically and have to 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.

SPECIAL CASES

a) VAT for the timber supply in the domestic context, in the state budget pays the recipient timber if the timber supplier and recipient are registered tax payers.

b) VAT for the construction services, in the domestic context in the state budget pays the recipient if the construction and building service supplier and recipient are registered tax payers.

c) The tax for the scrap supply, in the state budget pays the recipient of scrap if the supplier and recipient are registered tax payers.

d) If the real estate is used real property, the right to VAT for the supply is only a registered tax payer.

e) Latvia has a special tax regime for importation 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 responsible persons 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.

RIGHTS OF THE TAX PAYER AND THE VAT AUTHORITIES

If a person illegally issued tax invoice or receives a tax, it is not entitled, the State Revenue Service has the right unlawfully received tax amount on an uncontested basis recover state budget and to levy a fine of 100 per cent of the illegally received tax amount.

If a person is not calculated and does not pay tax to the State budget, the person pays additionally a penalty of 10 percent of the unpaid tax amount.

EU DECLARATIONS

All individuals or legal entities that deliver (dispatch) or acquire (introduce) goods to or from a Member State should provide statistics (Intrastat).