Amendments to the Value Added Tax Law

SRS Tax Department
Value Added Tax Department
On 20 April 2017 the Saeima adopted in the final reading the law “Amendments to the Value Added Tax Law, which came into force on 1 June 2017.

The above mentioned law “Amendments to the Value Added Tax” was published on the official gazette *Latvijas Vēstnesis*, No.90 (5917) on 10 May 2017.

In its turn, on 27 July 2017 the Saeima adopted in the final reading the law “Amendments to the Value Added Law”, which shall come into force on 1 January 2018, published in the official gazette *Latvijas Vēstnesis*, No. 156 (5983) on 8 August 2017.

Finally, on 22 November 2017, the Saeima adopted in the final reading the Law “Amendments to the Value Added Tax Law”, which entered into force on 1 January 2018 and was published in the official gazette *Latvijas Vēstnesis* of the Republic of Latvia No. 242 (6069) on 6 December 2017.
In accordance with the amendments made:

- a special VAT application arrangement or reverse payment procedure was introduced for deliveries of household electrical devices and household electrical appliances, game consoles, construction materials and metal products;

- a special VAT application arrangement or reverse payment procedure was introduced for services related to supply of metal products;

- application of the special VAT application arrangement or reverse payment procedure, referred to in Section 142 of the Value Added Tax Law, was expanded to all construction services;

- a threshold of the value of transactions taxable with VAT of 12 months for registration in the SRS VAT Payer’s register was reduced from 50 000 euro to 40 000 euro;

- a 5 percent VAT rate is determined for fruits, vegetables and berries typical of Latvia.
I Changes in Section 142 of the Value Added Tax Law

The terms used in Section 142 of the Value Added Tax are specified in accordance with the terminology used in the Construction Law. Thus in all wording of the Value Added Tax:

- the word “renovation” is replaced with the word “renewal”, accordingly the word “renovated” - with the word “renewed”;
- the word “reconstruction” - with the word “rebuilding”, accordingly the word “reconstructed” - with the word “rebuilt”.

The above mentioned amendments came into force on 1 June 2017.
II Regarding the special VAT application arrangement for provision of construction services and supplies of construction products

In accordance with the amendments made to Section 142 of the Value Added Tax Law:

1. the special VAT application arrangement for provision of construction services is expanded by determining that the Construction services shall mean:
   a) performance of any construction works;
   b) construction service agreement shall include all kind of designing.

Therefore the limiting provisions, determining the construction service, so far being in the law, are deleted. a new special VAT application arrangement has been introduced for supplies of construction products.

The above mentioned special VAT application arrangement will be referable to any product provided for building in the structure or industrially produced construction.

These changes shall come into force on 1 January 2018.
III New special VAT application arrangements are introduced

**Value Added Tax Law is supplemented with a new:**

- **Section 143**, which stipulates that the VAT reverse payment procedure shall be applicable to supplies of metal products and services related to that;

- **Section 143**, which stipulates that VAT reverse payment procedure shall be applicable to supplies of household electronic devices and household electronic appliances.

On 14 November 2017, Cabinet Regulation No. 672 “Amendments to Cabinet Regulation No. 17 “Procedures for Applying the Norms of the Value Added Tax and Individual Requirements for Payment and Administration of Value Added Tax”, adopted on 3 January 2013” was issued, which was published in the official gazette *Latvijas Vēstnesis* of the Republic of Latvia No. 228 (6055) on 16 November 2017 and entered into force on 1 January 2018, and in which Annexes 7 and 8 determine the products, which shall be considered as metal products, household electrical devices and household electrical appliances, the supplies of which are subject to special VAT application arrangements according to Combined Nomenclature codes, which are determined in the Combined Nomenclature and amendments thereto (in Annex 1 to Council Regulation (EEC) No. 2658/87 of 23 July 1987 on the tariff and statistical nomenclature and on the Common Customs Tariff and amendments thereto).

In relation to the new special VAT application arrangements, new codes were introduced — “R7”, “R8” and “R9”, in order to be able to present such transactions in Part 1 of the Annex “Overview VAT 1” to the VAT return:

- R7 — for the purchase of metal products and associated services;
- R8 — for the purchase of household electrical devices and household electrical appliances;
- R9 — for the purchase of building products.

P.S. the purchase of game consoles will have to be specified under the current code “R4”.

Such transactions shall be showed in annex to VAT return in an analogous procedure, according to which other transactions with the special VAT application arrangement are currently being showed.
IV Regarding the special VAT application arrangement for supplies of game consoles

In accordance with the amendments made, Section 143¹, Paragraph two of the Value Added Tax Law is supplemented with Clause 4, stipulating the VAT reverse payment procedure shall be applicable also to supplies of game consoles.
V Regarding reduction of the threshold for registration of a domestic taxpayer

In accordance with the amendments made, coming into force on 1 January 2018, in accordance with Section 59, Paragraph one of the Value Added Tax, a domestic taxpayer shall be entitled not to register in the State Revenue Service VAT Payer’s Register, if the total value of product deliveries and provided services taxable with VAT, performed by it during the previous 12 months, will not exceed 40 000 euro.

Example:

1. If the value of taxable transactions during the time period from January 2017 until December 2017 is 48 000 euro, should it register in the SRS VAT Payer’s Register in January 2018?
2. If the value of taxable transactions during the time period from February 2017 until January 2018 is 48 000 euro, should it register in the SRS VAT Payer’s Register in February 2018?

Atbilde:

A non-registered taxpayer shall have a duty to register in the SRS VAT Payer’s Register, if the value of taxable transactions for the previous 12 months, starting as of 1 January 2018, will exceed 40 000 euro.

Thus, in both of the above mentioned examples, a taxpayer shall register as a VAT payer.
VI Regarding direct application of VAT relief for provision of fulfilment of Supplementary Agreement to the Paris Protocol

Section 50 of the Value Added Tax Law is supplemented with a new Chapter 71, determining direct application of 0 VAT interest rate to supplies of products and services, which are inland provided to the members of the personnel of the headquarter of the Allied forces registered in the Republic of Latvia and defendants thereof in the store of the headquarter of the Allied forces in accordance with the provisions and restrictions of Supplementary Agreement to the Paris Protocol, as well as supplies of fuel, which is delivered in Latvia to the Embassy of the United States of America and diplomatic and consular agents as well as administrative technical personnel thereof.

Section 61 of the Value Added Tax Law is supplemented with Paragraph eight and Section 63 is supplemented with Paragraph six, in order to implement the provisions of Section 14, Paragraph two of the Supplementary Agreement to the Paris Protocol, stipulating that a VAT payer of another Member State and a VAT payer of a third country and third territory shall be entitled not to register in the State Revenue Service VAT Payer's Register, if it delivers goods or provides services inland only to the Allied forces staff recognized in the Republic of Latvia.

The above mentioned changes shall be applicable as of 1 January 2018.
VII Regarding acquisition of a new vehicle

In accordance with the amendments made, in order the receipt of a new vehicle would not be considered as the acquisition of the product in the territory of the European Union for compensation, Section 9, Paragraph two, Clause 2, sub-clause c of the Value Added Tax Law is expressed in the new wording, stipulating that a new vehicle shall be registered for the first time in another Member State, where it has been acquired.

The above mentioned amendments, which came into force on 1 January 2018, to Section 9, Paragraph two, Clause 2, sub-clause c of the Value Added Tax shall not change the essence of a new vehicle.
VIII Regarding changes in Section 52 of the Value Added Tax Law

The following changes have been made in Section 52 of the Value Added Tax Law, which shall come into force on 1 June 2017, namely,

• Section 52, Paragraph one, Clause 23 is expressed in a new wording, stipulating that the following shall not be subject to VAT:
  ✓ gambling;
  ✓ raffles;
  ✓ lotteries;
including gambling and lotteries, the organization of which is performed through electronic communication services.

• Section 52, Paragraph one, Clause 8 is deleted, which stipulates that the service provided by cooperative companies to the members of such cooperative companies shall not be taxable.
IX Regarding payment of the value added tax for import

The following clarifications have been made in Section 123 of the Value Added Tax Law:

In Section 123, Paragraph two the same procedure for application of the value added tax and customs tax has been determined for products, in relation to which the customer procedure “temporary importation” is applied, in accordance with which the products to be imported are partially exempted from payment of the customs tax.

Section 123, Paragraph five stipulates that VAT shall be calculated and paid to the State budget if the products are in temporary storage, determining that the tax shall be calculated and paid to the State budget, when a debt of the import duty tax shall become chargeable.

In accordance with the amendments made, which shall come into force on 1 January 2018, the time, when VAT shall be paid for import, is aligned with the time, when customs payments shall be made.
X Regarding the time of deduction of pre-tax

In order to reduce the number of corrections in VAT returns, Section 97, Paragraph one of the Value Added Tax Law has been clarified, stipulating that:

• pre-tax for received goods or services, except for services received from VAT payers of another Member State or VAT payers of third countries or third territories, the place of receipt of which is determined in accordance with Section 19, Paragraph one of the Law, shall be deducted from the VAT sum to be paid to the State budget in the taxation period, when:
  
  ✓ goods or services are received and the VAT invoice is received
  
or
  ✓ a compensation for delivery of goods or provision of services is paid before receipt of goods or services, but not later than in the next taxation period, following this taxation period, unless the law stipulates otherwise.

*The above mentioned changes came into force on 1 June 2017.*
XI Regarding repayment of the VAT overcharge

In accordance with the amendments made, Section 109, Paragraph four of the Value Added Tax Law has been clarified, determining the procedure, according to which the State Revenue Service shall repay the VAT overcharge, stipulating that:
• SRS shall repay the overcharge referred to in Section 109, Paragraph three to the bank account specified by a registered taxpayer within 10 days afterwards, when the SRS, considering the deadline set forth in Paragraph one of the same Section, has approved the overcharged amount of tax declared in the last taxation period of the taxation year.
XII Regarding adjustments of pre-tax for lost debts

It is clarified in Section 105 of the Value Added Tax Law that the adjustment of pre-tax for lost debts may be performed also after more than 3 years, if the provisions of Section 105, Paragraph 21 of the Law have been fulfilled, namely, within a time period of three years from the day of occurrence of the debt:

1) a statement of claim has been lodged with a court regarding recovery of debt from the consignee of goods or services - in relation to the event referred to in Paragraph three of this Section;
2) a bankruptcy procedure of the consignee of goods or services has been initiated - in relation to the event referred to in Paragraph four of this Section;
3) an insolvency proceeding of the consignee or goods or services has been initiated - in relation to the event referred to in Paragraph five of this Section.
Amendments to the Cabinet Regulation No. 40
“Regulations Regarding Value Added Tax Returns”,
adopted on 15 January 2013

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In accordance with the Law “Amendments to Cabinet Regulation No.40 “Regulations Regarding Value Added Tax Returns”, adopted on 15 January 2013, to the Value Added Tax Law”, adopted by the Saeima on 20 April 2017, the appropriate clarifications were required.

On 25 July 2017 the Cabinet Regulation No. 433 “Amendments to Cabinet Regulation No.40 “Regulations Regarding Value Added Tax Returns”, adopted on 15 January 2013” were issued, which were published on the official gazette Latvijas Vēstnesis of the Republic of Latvia, No.148 (5975) on 27 July 2017.

In turn, on 31 October 2017, Cabinet Regulation No. 643 “Amendments to Cabinet Regulation No. 40 “Regulations Regarding Value Added Tax Returns”, adopted on 15 January 2013” was issued, which was published in the official gazette Latvijas Vēstnesis of the Republic of Latvia No. 218 (6045) on 2 November 2017.

Finally, on 12 December 2017, Cabinet Regulation No. 719 “Amendments to Cabinet Regulation No. 40 “Regulations Regarding Value Added Tax Returns”, adopted on 15 January 2013” was issued, which was published in the official gazette Latvijas Vēstnesis of the Republic of Latvia No. 248 (6075) on 14 December 2017.
I Regarding clarification of terminology

Taking into account the fact that the terms used in the Value Added Tax Law are clarified in accordance with the terminology used in legal acts governing the construction area, in the Cabinet Regulation No. 40 “Regulations Regarding Value Added Tax Returns”, adopted on 15 January 2013:

- the word “reconstructed” was replaced with the word “rebuilt”;
- the word “renovated” was replaced with the word “renewed”.
II Regarding direct application of VAT 0 rate

Taking into account changes in Section 50 of the Value Added Tax Law, which were supplemented with a new Chapter 7 regarding direct application of 0 VAT rate, the relevant paragraphs of Cabinet Regulation No.40 “Regulations Regarding Value Added Tax Returns”, adopted on 15 January 2013, were supplemented in order, starting as of 1 January 2018, the registered VAT payers could correctly show in the VAT return the supplies of goods and services, upon which 0 VAT rate is applied.

The above mentioned transactions for supplies of goods and provided services to NATO forced arms shall be specified in Row 43 of the VAT return, but the services provided to NATO forced arms shall be specified in Row 48.
In accordance with Cabinet Order No.245 “Regarding National Tax Policy Guidelines for 2018-2021, adopted on 24 May 2017, the lower threshold for the amount of transactions to be separately specified in annexes to VAT return is determined in Cabinet Regulation No. 40 “Regulations Regarding Value Added Tax Returns”, adopted on 15 January 2013;

a registered VAT payer shall describe transactions with registered VAT payers, the value of which **exceeds 150 euro**, excluding VAT, instead of the current transactions, the value of which exceeds 1430 euro, excluding VAT;

these changes in relation to the threshold of the amount of transaction of 150 euro for filling in the VAT returns and annexes thereof shall be applicable, **starting as of taxation period (of the first month, first quarter) 2018.**
State Revenue Service
Therefore:

In Part 1 of the 1st VAT statement for codes V and T and in Part 3 of the 1st VAT statement for codes V, T and X the threshold for transactions with other VAT payers registered in Latvia shall be 150 euro.
The threshold of codes N and I shall not be changed.

For transactions with non-registered VAT payers the changes shall be only in the use of codes.

*Example:*
Goods were delivered in 2017 in the value of 800 euro (including VAT) to the non-registered VAT payer. The above mentioned transactions shall be showed in Part 3 of the 1st VAT statement with the code T. But as of 2018 such a transactions shall be showed with the code X.
With regard to the introduction of a 5 percent VAT rate for fruits, vegetables and berries typical of Latvia, the VAT return was supplemented with 5 new rows:

- 42.\(^1\) — value of fruits, vegetables and berries subject to the 5% rate when supplied in Latvia;
- 45.\(^1\) — value of fruits, vegetables and berries subject to the 5% rate when supplied to EU;
- 51.\(^1\) — value of fruits, vegetables and berries subject to the 5% rate when purchased from EU;
- 53.\(^1\) — VAT at the supply of fruits, vegetables and berries subject to the 5% rate in Latvia;
- 56.\(^1\) — VAT at the purchase of fruits, vegetables and berries subject to the 5% rate from EU.
Thank you for your attention!