

Government to debate 5% VAT on fruits and vegetables (2/27/17)

The Cabinet of Ministers is to debate an informative report on how to differentiate the rate of VAT on foodstuffs, which provides for introducing a reduced VAT rate of 5% on supplies of fresh fruits and vegetables that are “characteristic of Latvia” from 1 January 2018.

A conditional reduction

The Ministry of Agriculture has presented the Cabinet of Ministers with proposals for reducing the rate of VAT on supplies of fresh fruits and vegetables characteristic of Latvia from 21% to 5% and for reaching an agreement with the Latvian retailers to cut the retail prices of the foodstuffs that will have the rate of VAT so reduced.

The Ministry of Agriculture states in its report that “...only then will this industry be able to achieve the best and biggest effect in order to prevent traders from doing business in the illegal sector and to promote the competitiveness of fresh fruit and vegetable producers trading on the legal market.”

The Ministry of Agriculture estimates that the legal trade in fresh fruits and vegetables characteristic of Latvia will grow by 20% and government revenues will shrink by 3.9–5.7 million euros as a result of adopting the reduced rate of VAT. The prices of fresh fruits and vegetables will fall by 1.9–6.7% and their average consumption will rise by 1.2–2.3%.

An appendix to the report lists foodstuffs eligible for the reduced rate (including apples, strawberries, cherries, flowering quinces, blackberries, blackcurrants, cabbages, onions, garlic, and potatoes).

Fighting the shadow economy

According to the Ministry of Agriculture, the reduced rate of VAT on fruits and vegetables characteristic of Latvia should be adopted while taking the measures a Ministry of Economics task force has recommended to minimise the shadow economy in farm produce sales at markets and street stalls.

If the government comes to an agreement on the reduced rate, the Ministry of Finance will draft proposals for amending the VAT Act.

It should be noted that Parliament has already debated proposals for applying a reduced rate of VAT to foodstuffs on several occasions, but those were always rejected.

We expect that defining fresh fruits and vegetables as “characteristic of Latvia” rather than, for instance, “grown in Latvia” will make it difficult for the SRS to administer the application of the new rate. The Ministry of Finance should take this into consideration when drafting amendments to the VAT Act.