

Fruits, berries and vegetables to attract 5% VAT from 2018 (1/41/17)

We have informed MindLink.lv subscribers about the government's decision to differentiate VAT rates on supplies of fruits, berries and vegetables that are characteristic of Latvia. This means introducing a reduced rate of 5% on those supplies from 1 January 2018 to minimise the shadow economy in the agriculture and distribution of foodstuffs.

A bill is ready

The Ministry of Finance (MOF) has drafted and presented to Parliament a bill of amendments to the VAT Act in order to perform the task of supporting the introduction of a reduced rate of 5% on supplies of fruits, berries and vegetables characteristic of Latvia.

Latvia already operates one reduced rate of 12% on certain supplies of goods and services.

By introducing a reduced rate of 5% on supplies of fresh fruits, berries and vegetables from next year, the bill mainly aims to reduce the percentage of shadow economy, increase the number of traders operating legally, lower the retail prices of fruits, berries and vegetables, and increase their average consumption.

The bill provides for introducing 5% VAT on supplies of foodstuffs which are fresh fruits, berries and vegetables that have been washed, peeled, shelled, cut and prepacked, but not treated thermally or otherwise (e.g. frozen, salted or dried). The bill has an appendix listing the products covered by the new rule – a total of 64 fruits, berries and vegetables characteristic of Latvia. The reduced rate of 5% is to operate from 1 January 2018 to 31 December 2020. The reduced rate will also apply to imports and intra-Community acquisitions of the listed fruits, berries and vegetables.

If the bill receives parliamentary approval, the MOF and the State Revenue Service will need to draft appropriate amendments to Cabinet Regulation No. 40, *Value Added Tax Returns*, and Cabinet Regulation No. 17, *Application of Provisions of the Value Added Tax Act and Certain Requirements for Paying and Administering Value Added Tax*, in order to align the use of terminology with the VAT Act, and the VAT return form will need new columns for reporting supplies at the reduced rate.

Once the bill is approved, traders will need to prepare themselves by making appropriate changes to their cash registers and systems.