

European Commission demands abolition of Latvian reverse charge VAT (1/25/18)

We have informed our MindLink subscribers about the European Commission's objections to Latvia's adoption of reverse-charge VAT on domestic supplies of consumer electronics and household electrical appliances. On 7 June 2018 the Commission sent an official letter warning Latvia of non-compliance in its national reverse-charge VAT on supplies of construction products, consumer electronics and household electricals.

Infringement of EU law

The Commission feels that these rules of the Latvian VAT Act are inconsistent with EU VAT rules since the VAT directive (Council Directive 2006/112/EC on the common system of value added tax) permits a reverse charge only where this is restricted to special cases and used for products listed exhaustively. If Latvia fails to respond within the next two months the Commission may send its full opinion to Latvian authorities.

In its preliminary objections the Commission stated that reverse-charge VAT is not a long-term solution and no substitute for proper control measures in the industry and for taxable persons. Latvia's adoption of reverse-charge VAT may also fuel fraud in the retail trade and elsewhere in the EU because this measure is not the best way of addressing the complicated VAT situation in the sectors concerned.

The Latvian Ministry of Finance (MOF) has stated that it understands the Commission's objections but the adoption of reverse-charge VAT was supported by politicians, industry representatives, non-governmental organisations, and the business community. Also, a high level of VAT fraud has been detected in sales of consumer electronics and household electricals.

The MOF has yet to issue an official opinion on the Commission's objections to Latvia's insufficient control measures for fighting VAT fraud that are likely to shift all the VAT liabilities onto the retail trade, opening up new opportunities for VAT fraud.

Over the next two months Latvian taxable persons should be monitoring relevant MOF activities and publicly available information on Latvia's response to the Commission's letter about reverse-charge VAT on supplies of construction products, consumer electronics and household electricals between businesses to make preparations for any proposed legislative changes.