Tighter rules for digital economy (2/32/18)

Latvia is experiencing the development of digital economy with increasingly more business being done through websites and mobile apps. However, the traditional methods of tax administration are not always effective enough in digital economy, and so the State Revenue Service (SRS) is looking to strengthen methods that are suitable for monitoring payment of taxes on income derived from online sales of goods and services. In the light of the OECD's paper of 16 March 2018, *Tax Challenges Arising from Digitalisation – Interim Report 2018*, the Cabinet of Ministers on 3 July approved proposals for amending the Taxes and Duties Act to improve the rules governing the tax administration process and to help fight tax evasion in digital economy. In this article we take a look at some extra obligations traders are to face and some measures designed to help the SRS faster detect cases of tax evasion.

Key aspects

The proposed amendments will give the SRS better access to information about business done in the digital environment and tighten the rules for disconnecting a domain name.

To make relevant information more accessible to the SRS, the proposals clarify the definition of a "point of sale" by providing that it covers a website where a taxpayer carries on any other trade or business from which he derives revenue. The proposals do not, however, aim to recognise as a point of sale any site a taxpayer maintains merely for marketing and information purposes.

To fight tax evasion in digital economy, there are plans to improve the rules on the availability of information about online sales. The proposals authorise the SRS to request information from providers of payment card processing services, e-money institutions and providers of any technical services (including mail-order companies) that have information about e-commerce transactions.

The proposals authorise the SRS to request information from credit institutions about any payments made to a foreign trader out of any account opened with a credit institution for a period of up to four calendar years after the date of request in order to obtain information about traders operating in the digital environment and about their business volumes in Latvia. Obtaining such information will improve the tax administration process by identifying foreign traders that have neglected their obligation to register for Latvian VAT and by encouraging voluntary payment of taxes.

Also, to fight tax evasion and restrict business done with dubious persons, the taxpayer will be required to notify the SRS of any payment accounts opened at foreign payment institutions (such as Paysera) or foreign e-money institutions.

Another important proposal tightens the rules for disconnecting a domain name. To encourage providers of online advertising services, payment services, mobile app services and online trading services to meet statutory requirements and to provide the SRS with any information that might be useful for taking other preventive or control measures on taxpayers, the proposals authorise the SRS to make a decision to disconnect a domain name if the taxpayer has failed within 12 months to rectify a breach about which he has received a warning.