

New grounds for VAT deregistration (1/11/19)

The Cabinet of Ministers is to debate proposals for amending the VAT Act to give the State Revenue Service (SRS) more powers to deregister traders for VAT purposes. The proposals also lay down tighter conditions for obtaining a permit to apply a special VAT scheme on imports, as well as prescribing a taxable person's liability for failure to provide the SRS with information about the conduct of a transaction. Traders that change their board improperly or fail to conduct any economic activity will face VAT deregistration.

An annotation to the proposals says they aim to fight VAT fraud.

The SRS's power to deregister traders

The proposals give the SRS the power to deregister a taxable person that meets at least one of the following conditions:

1. a taxable company's officer or a taxable individual is on the SRS's list of risk persons;
2. a taxable person has reported no transaction on VAT returns for six or more calendar months;
3. a taxable person replaces all its officers before starting any economic activity; or
4. a taxable person replaces all its officers with individuals that are neither Latvian citizens nor permanent residents.

If a taxable person has reported no transaction for six months or replaces board members as described above, the SRS will send a written warning, seek explanations, and make a decision after assessing any explanation received.

The proposals supplement the transition rules of the VAT Act with a clause that authorises the SRS within 60 days after the clause takes effect to deregister any taxable person that has been registered for at least 12 calendar months but has reported no transaction on VAT returns for the last 12 calendar months. Challenging or appealing the SRS's decision will not suspend its operation.

Tighter conditions for applying a special VAT scheme on imports

The proposals introduce tighter conditions for issuing a permit for applying the special procedure by including more requirements in section 85(4) of the VAT Act. Before issuing such a permit, the SRS will also assess whether the applicant's technical and financial capabilities match their stated types of economic activity, whether a taxable company's officer or a taxable individual is on the list of risk persons under the Taxes and Duties Act, and whether the applicant has conducted any economic activity in Latvia over the last 12 months.

Liability for non-disclosure

According to the annotation, on reasonable suspicion the SRS carries out tax control by monitoring a taxable person's transactions. Yet dishonest traders often ignore the SRS's requests and fail to notify the place and time of their transactions, which prevents the SRS from verifying that the transactions were actually completed, and those transactions are later reported on VAT returns. Section 146 of the VAT Act is therefore to feature a new type of penalty. If a taxable person fails to duly provide the SRS with details of a

transaction's place and time the SRS has requested for monitoring it, the person will be liable to a fine of 21% of the taxable amount of the transaction.