

VAT exemption on culture events (3/27/19)

Taxpayers are unsure how various culture services qualify for a VAT exemption available [under section 52\(1\)\(17\) of the VAT Act](#). This article explores the Finance Ministry's comments and the situation in the European Union.

Exempt services

The VAT Act exempts the following supplies of services:

1. Theatre and circus shows;
2. Concerts;
3. Events intended for children, events held by amateur art troupes, and events held for charitable purposes;
4. Visits to nationally recognised museums, libraries, exhibitions, zoological gardens and botanical gardens as well as any cultural and cultural education events they organise;
5. Services ensuring that information stored in a library is available for public use.

Domestic taxpayers supplying only these services may choose not to register for Latvian VAT.

Section 52(2) of the VAT Act provides that a VAT exemption on those services is available also to persons that are not public persons if they do not systematically make a profit from supplying them. If a profit is made, an exemption is available where that profit is reinvested to improve the services.

The wording "also to persons that are not public persons" suggests that an exemption with no further restriction may be taken by public persons, which are the Republic of Latvia as the original legal entity of public law and public derivatives under section 1 of the National Government Act. A public derivative is a municipality or any other public person established by law.

So, if an event organiser aims to make a profit from holding culture events and if that profit is not used to provide culture services in the future, the organiser is liable to register for Latvian VAT.

The Finance Ministry's comments

According to the ministry, if the conditions of section 52(2) of the VAT Act are not satisfied, the culture services attract the standard rate. So, if a VAT exemption is to be taken, any profit made by a culture event must not be distributed to the company's shareholders or any other persons and must be used to continue or improve exempt culture services. However, if the company aims to profit from holding culture events, and profits are distributed to its shareholders, then admission fees should include VAT.

The situation in the European Union

The European Commission's survey shows that at least some culture events were exempt in 12 (including Latvia) out of 28 member states at 1 January 2019.¹ However, most of the countries giving an exemption restrict it to organisations authorised by the government to provide those services.

In addition to an exemption restricted to organisations with special status, a number of countries have

adopted a reduced rate of VAT. For example, culture events in Belgium attract a 6% VAT (standard 21%), in Czech Republic a 15% VAT (standard 21%), in Germany a 7% VAT (standard 19%), in Ireland a 13.5% VAT (standard 23%), in Croatia cinema shows a 5% VAT and concerts a 13% VAT (standard 25%), and in Italy a 10% VAT (standard 22%).

The situation in the other two Baltic States is similar to Latvia, i.e. culture services attract the standard rate of 21% and 20% in Lithuania and Estonia respectively. The sad conclusion is that culture events are not a Baltic priority.

¹ The European Commission "VAT rates applied in the Member States of the European Union" – the situation at 1 January 2019