

Receipt lottery in Latvia and abroad (3/29/19)

To fight the shadow economy, a number of European countries offer their residents a variety of benefits in exchange for honest payment of taxes. Those benefits include a national lottery in which cash-register receipts for goods and services take part in various prize draws. Latvia launched its first receipt lottery on 1 July 2019.

Experience across the EU

The tax authority is interested in running a receipt lottery because its costs in proportion to potential tax revenues are fairly low compared with other measures aimed at boosting tax revenues and fighting the shadow economy.

In 1997, Malta became the first European country to run a receipt lottery. To enter the lottery, consumers had to send receipts with their personal details by post.

Slovakia, Poland and Lithuania are using a more advanced system with receipts being posted on a dedicated website (Latvia is using a similar system).

In Portugal, all business cash registers are linked in a single system, and the tax authority sees their transactions at once, so the taxpayer does not even have to register any receipts. When making a purchase, the buyer should merely personalise the receipt by printing their taxpayer number on it. During the first year after launching the receipt lottery in 2014, Portugal was able to boost its VAT revenues by 4%, or more than €563 million.

The receipt lottery in Latvia

People of all ages may enter the receipt lottery run by the State Revenue Service (SRS), except for people employed by the SRS or by the lottery website developer. The receipt lottery is also open to children, but any receipt they post must not show purchases of alcohol, tobacco products or energy drinks. An annual prize pool of €290,000 (€30,000 each month and €70,000 once a year) will be fully paid out of government funds.

The winner of each draw is to be determined by using a ratio of 70/30, i.e. 70% will be receipts for services supplied in Latvia, and 30% will be receipts for goods. The services prevail because they represent a high percentage of shadow economy.

Under the Personal Income Tax (PIT) Act, lottery winnings will be exempt from PIT. However, any prize exceeding €4,000 will have to be declared as non-taxable income on the annual income tax return.

Receipts can currently be posted only on the lottery website, but the SRS plans to launch a mobile app by the year end allowing consumers to enter the lottery using a smartphone or tablet.

The fiscal effect

While it is clear that launching the receipt lottery will cut back the shadow economy and encourage honest

payment of taxes, it is impracticable to quantify the fiscal effect of the lottery because any increase in tax revenues is affected by a number of anti-tax avoidance measures being taken simultaneously.

An annotation to the Receipt Lottery Act estimates the positive fiscal effect of the lottery's first year at €3 million. The expected cost of around €250,000 is to cover lottery administration and the prize pool.