VAT Act to be amended on e-commerce (3/20/20)

The Cabinet of Ministers is to debate proposals for amending the VAT Act that provide for transposing three Council directives that prescribe the VAT treatment of e-commerce by expanding the scope of special VAT schemes and introducing a new scheme for goods imported from third countries or territories. We have written earlier about the expected EU changes to the VAT treatment of e-commerce from 2021.

VAT rules for distance sales of goods: four special schemes

Globalisation and technology advancements have resulted in rapid development and popularity of e-commerce at EU level. To protect the member states' revenues, to create equal competition for EU established and non-established traders, and to minimise the administrative burden, on 5 December 2017 the EU Council adopted Directive 2017/2455, which improves the e-commerce provisions of Council Directive 2006/112/EC of 28 November 2006 on the common system of value added tax. Some of those provisions came into force on 1 January 2019 while provisions creating new VAT rules for distance sales are to come into force on 1 January 2021. To make the application of e-commerce rules as clear as possible, Directive 2019/1995 has made a few technical clarifications to the provisions of Directive 2017/2455.

Traders that supply telecommunications, broadcasting and electronically supplied services and have opted to use the Mini One Stop Shop ("MOSS") scheme are currently not required to register for VAT in more than one member state. The proposals for amending the VAT Act introduce the following changes from 1 January 2021:

1. Widen the scope of MOSS by extending the non-Union scheme to any services that a non-established taxable person supplies to non-taxable persons;
2. Widen the scope of MOSS by extending the Union scheme to any supplies of services and distance sales of goods in the EU;
3. Introduce the Import One Stop Shop ("IOSS"), a new special scheme for distance sales of goods imported from third countries or territories, and apply it to any consignment (other than excise goods) with an intrinsic value of up to EUR 150;
4. Following the adoption of the import scheme for distance sales of goods imported from third countries or territories and the cancellation of a VAT exemption on low value consignments, it is proposed to introduce simplification measures for persons declaring goods for customs (postal operators and couriers) and allow them to report and pay VAT on consignments from third countries or territories on a monthly basis, unless VAT on those consignments is reported under IOSS.

Accordingly, four special schemes will exist for VAT purposes in e-commerce from 1 January 2021. Although their use is voluntary, special conditions will apply. The VAT Act is to have new sections laying down procedures for using a particular scheme, and the Cabinet of Ministers' Rule No. 17 of 3 January 2013, *How to apply provisions of the VAT Act and certain requirements for paying and administering VAT*, is to lay down procedures for entering a taxable person on the non-Union scheme register and on the Union scheme register as well as conditions for removing a taxable person from the non-Union scheme register and the Union scheme register. Thus, from 2021 the VAT Act will contain a comprehensive set of rules for applying a particular scheme – the range of persons qualified to register for it, thresholds for distance sales, registration procedures and deadlines, details to appear on an application, reasons for deregistration, a taxable person's obligations for applying the scheme, procedures for filing the VAT return

and the deadline for paying output tax, as well as delegation to the Cabinet of Ministers to prescribe how a Latvian taxable person registered for using the scheme must prepare and complete the VAT return, including details required to appear on it.