

Reporting reverse charge VAT on supply spanning multiple tax periods 3/3/21



Partner and Head of Tax Practice, PwC
Latvia
Ilze Rauza

To ensure systematic accounting for VAT and prevent evasion where a supply continues for a long time and the tax point is difficult to identify, the VAT Act lays down time limits for issuing a tax invoice and reporting VAT. But are those deadlines applicable to a supply between two Latvian-registered taxable persons where the customer is responsible for accounting for VAT ("local reverse charge")?

The rules

Sections 31(2) and 32(3) of the VAT Act prescribe when a continuous supply spanning multiple tax periods is considered to have taken place. If goods (other than hire purchase) or services (other than the renting of movables) are supplied continuously over multiple tax periods and tax invoices are issued periodically or the supply creates future payments, then it is considered to have taken place at the end of the period covered by those invoices or payments, but not to exceed six months. A tax invoice for a taxable supply spanning multiple tax periods must be issued every six months or more frequently under section 129(9) of the VAT Act.

The VAT return for a tax period is filed for supplies made in it, so a supply spanning multiple tax periods must be reported every six months or more frequently on the VAT return for the tax period in which the consideration for the transaction is received or at the end of the period covered by a tax invoice.

These rules govern domestic supplies and their application seems clear where a VAT-registered taxable person makes taxable supplies of goods or services under general procedure. Questions arise in local reverse-charge supplies, particularly services related to timber or scrap metal supplies where the customer is responsible for accounting for VAT under sections 141 and 143 of the VAT Act. In certain situations services related to timber supplies (e.g. the granting of tree felling licences and the felling of trees) or scrap metal dismantling services last more than six months, and the consideration has yet to be paid.

If construction services listed in section 142 of the VAT Act, which are also subject to reverse-charge VAT, continue over multiple tax periods, the tax point under section 32(5) of the VAT Act is every 12 months or more frequently, but there are no special rules to govern other cases of local reverse charge. So those transactions, including continuous services supplied over multiple tax periods, are governed by the general tax point rules.

This can lead to situations where the supplier fails to duly issue a tax invoice and the customer has to monitor compliance with the deadlines for charging, reporting and possibly also paying VAT. Where goods or services are to be supplied continuously over multiple tax periods (e.g. services related to timber preparation) and in other cases of local reverse-charge, the parties are advised at the time of signing a contract to agree on a procedure for regularly issuing interim tax invoices to help identify the tax point for reporting their supplies and reverse-charge VAT, in particular where a tax invoice is outstanding.

We note, however, that the VAT Act does not impose any penalties for late reporting of local reverse-charge supplies.