

Expected amendments to VAT Act in 2022 2/49/21



Senior Manager, Tax Reporting, Accounting and Strategy, PwC Latvia
Juris Boiko



Senior Consultant, Tax, PwC Latvia
Kristine Skrastina

Drafted by the Budgetary and Fiscal Committee, endorsed by the Cabinet of Ministers and passed by Parliament, amendments to the **VAT Act** are waiting to be announced by the President of Latvia. The amendments are mainly related to changes in other pieces of legislation or meant to take over several VAT directives amending Directive 2006/112/EC on the common system of value added tax. This article explores what we see as key amendments.

A deposit scheme

The VAT amendments are to be aligned with amendments to the Packaging Act, which provide for a mandatory deposit scheme for reusable and disposable packaging to be set up from 1 February 2022.

The **VAT Act** contains certain provisions relating to the deposit scheme for reusable packaging. Section 39 of the Act provides that reusable deposit fees are excluded from the taxable amount of a supply. Under section 90, a registered taxable person using the deposit scheme for reusable packaging is required to adjust the taxable value of goods supplied for the value of non-returned deposit packaging through the VAT return for the tax year, and to pay the VAT due to the government. Section 117(5)(4) requires a registered taxable person to file the VAT return for the tax year if he uses the deposit scheme for reusable packaging.

Under the Packaging Act, packers may currently apply a voluntary deposit scheme for reusable packaging for drinks. On 24 October 2019 Parliament amended the Packaging Act to introduce a single mandatory deposit scheme for reusable and disposable packaging for drinks in Latvia from 1 February 2022.

5% VAT on supplies of books, newspapers, magazines, newsletters and other periodicals

From 1 January 2022 the current rate of 12% on supplies of books, newspapers, magazines, newsletters and other periodicals will be reduced to 5%.

Supplies of books (including educational literature, brochures, booklets and similar printed matter, children's picture, drawing and colouring books, printed music and sheet music, maps and hydrographic or similar charts) issued in the form of a printed or electronic publication (including online supplies and downloads of books) will be liable to a 5% VAT.

Supplies of publications of the press and other mass media (including newspapers, magazines, newsletters and other periodicals, and information agency communications for public distribution) issued in the form of a printed or electronic publication (including online supplies and downloads) and website publications, and their subscriptions will also be liable to a 5% VAT.

As with the current **VAT Act**, supplies of books, newspapers, magazines, newsletters and other periodicals issued in the form of a printed or electronic publication which are of an erotic and pornographic nature,

whose content and purpose is publication of advertisements or commercial announcements, and which consist wholly or mainly of video content or music, will not be eligible for the reduced rate.

An exemption on forced co-ownership

Using the concept of lease in shared ownership situations had created some unexpected indirect consequences, and one of the issues was the VAT treatment of rental payments if the land owner is a taxable person. Under the VAT Act, a lease is a taxable supply, so if the land owner is a taxable person, the building owner must pay VAT in addition to the agreed rent. This situation involved an unequal treatment of different owners of buildings in shared ownership depending on whether the land owner is a taxable person. The amendments exempt the statutory rent, which has so far been treated as a supply of services for consideration under the VAT Act.

This exemption will apply to statutory land use rights in legal relations between owners of land and buildings from 1 January 2022. The rent paid in a forced lease will be exempt from 1 January 2022 to 31 December 2023 in line with amendments to the Act Prescribing the Effective Dates and Procedures for Applying the Introductory, Inheritance and Property Law Parts of the Civil Code of 1937.

Apart from the key amendments outlined above, there are changes to the VAT treatment of supplies to units of the armed forces of other EU member states and a number of minor wording changes to the VAT Act's sections.