

Positive changes for small and medium-sized enterprises (SMEs): impact of amendments to the VAT Law 3/6/25



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The obligation to register for VAT purposes depends not only on the registration threshold set in Latvia for domestic transactions (EUR 50,000), but also on the type of services supplied to a VAT payer of another EU Member State, if the place of supply of these services is determined under Section 19, Paragraph One of the VAT Law (the recipient of the service is responsible for the payment of VAT), or on the type of services received, the place of which is determined under the above-mentioned Section. According to the VAT Law, VAT registration is also required if the purchase of goods by a company in the territory of the EU reaches or exceeds EUR 10,000 in the current calendar year (currently, this threshold can be used not only by inland taxpayers but also by taxpayers from another EU Member State). The registration requirement has so far prevented SMEs from “enjoying” their status. Some changes have already come into force from 1 January 2025, others will become effective on 1 July 2025. This article looks at these changes.

The transactions are subject to a special VAT registration procedure, i.e. they receive a VAT registration number with the code “EX”, which may only be used for the supply of goods and services in another Member State in accordance with the legislation of that Member State. The company does not charge VAT on transactions carried out in other countries and uses the VAT registration number with the code EX issued in Latvia until it reaches the registration threshold set there or until its annual turnover in the European Union exceeds EUR 100,000.

The above-mentioned amendments to the VAT Law did not resolve the situation in which SMEs lost their status despite their turnover by purchasing non-essential services from abroad or purchasing goods worth more than EUR 10,000 per year in the EU territory. At present, SMEs are obliged to register for VAT before using these services and in future to charge VAT on all their turnover.

The amendments to the VAT Law, which will come into force on 1 July 2025, will also provide these SMEs with a special VAT identification number that can be used exclusively for the payment of VAT on services received from VAT-registered businesses from other Member States of the European Union or third countries and territories, as well as for the purchase of goods on the territory of the EU.

This number will not oblige SMEs to pay VAT on their domestic taxable supplies or supplies until the SMEs register for VAT purposes under the general scheme.

It should be borne in mind that VAT-taxable persons registered under the special scheme may not deduct input VAT on goods purchased and services received in order to safeguard their economic activity.

Example. Latvian company A (the provider of electronic services) offers its customers (natural persons) various training videos for download. The company does not conduct any other business, and in 2024, it only had customers in Latvia. In 2024, the company’s turnover in Latvia was EUR 10,000. To promote the training videos, the company advertised them online and paid EUR 100 to a taxable person from another EU Member State in 2024. Although the registration threshold for domestic transactions in Latvia (EUR

50,000) was not exceeded, the company had to register in the Latvian VAT register due to the receipt of advertising services. After registration in the VAT register, the services provided by the company are subject to Latvian VAT of 21%.

If the company receives the same advertising services after 1 July 2025, the company will have to charge and pay VAT on the advertising services received from a company from another Member State (in this case EUR 21). The company would, however, continue to be exempt from VAT on training video-related services until the registration threshold set in Latvia for domestic sales (EUR 50,000) is reached.

Taxable persons registered under the special scheme will not be required to submit a VAT return for the tax period. Such SMEs that receive services from VAT-registered businesses from another Member State, a third country or the territory of the European Union and have acquired goods in the territory of the European Union must submit a VAT return to the SRS by the 20th of the month following the receipt of the services or the acquisition of the goods in the territory of the European Union. VAT must be paid within 23 days of the month in which the transaction took place. Similarly, all taxable persons registered under the special scheme will be exempt from the obligation to issue a VAT invoice for the transactions they carry out.

In our view, these changes to the VAT Law are welcome as they reduce the administrative burden for SMEs and allow a greater number of businesses to benefit from the SME scheme.