European Commission calls for amendments to Latvian VAT law (1/25/09)

The European Commission has officially demanded that Latvia should abolish its current VAT exemption for supplies of development land because Council Directive 2006/112/EC on the common VAT system does not provide for such exemption. This article examines some of the measures being introduced in Latvia to improve the situation and comply with the Commission's orders, and takes a look at some other VAT amendments in the pipeline.

Latvian law currently exempts any sale of real estate (including land) other than the first sale of unused real estate.

The directive provides for member states to exempt supplies of greenfield sites, except for sales of development land. Under the directive, each sale of development land is taxable, not the first sale only. So, current Latvian law is inconsistent with the directive and must be rectified.

Proposed amendments

We have already informed our subscribers that draft amendments have been presented to Parliament regarding supplies of development land. Originally the amendments only intended to charge VAT on development land with planning permission for building work issued after 31 December 2010. This would mean such supplies continuing exempt until 2011.

However, a proposal to substitute 2009 for 2010 has been laid before Parliament for a third reading. If Parliament supports this bill, then sales of development land with planning permission issued after 31 December 2009 will attract 21% VAT.

The amendments define the term 'development land' as a piece of land for which planning permission has been issued for building development or to construct communications on it or roads, streets or communication access intended for it.

Apart from the above, new important amendments are being proposed for the reduced rate. 10% VAT is to apply to supplies of educational and original literature publications, and to supplies of firewood and wooden heating material to households. These amendments are expected to come into force on 1 August 2009. The reduced rate for mass media supplies (subscription fees) is to be extended until 1 January 2011.

The amendments also change the procedures for registration of taxable persons as well as assessment and payment of VAT. Probably taking effect from 1 October 2009, these rules will halve the time limit for registration of traders whose total taxable transactions reached 10,000 lats in previous 12 months, and of persons making intra-Community acquisitions of goods in excess of 7,000 lats. Appropriate changes are to be made to sections 2, 3, 12, 26 and 30 of the VAT Act, and to the transition rules.

We will be posting more details of these amendments once they have been passed and announced.