Electronic data processing legislation in Latvia (1/14/17)

With the pace of technology deployment growing exponentially, companies are trying to stay afloat by shifting the focus of their strategic development planning to technology deployment in their business processes, which include data gathering, data processing, and data reporting. Governments are also encouraging initiatives to use technology in processing company data. This article explores the latest developments in Latvian legislation related to data processing in electronic form.

The Taxes and Duties Act

This piece of legislation already includes the requirement that a taxpayer keeping his books electronically should give the tax authority's authorised representative access to his accounting information processed and stored electronically. The tax authorities take advantage of this access as part of their tax control measures. The format in which this information should be made available has yet to be defined.

The OECD's guidelines

The OECD has issued guidelines that include requirements for filing information in electronic form using SAF-T (Standard Audit File for Tax). Countries such as France and Germany have already adopted standardised requirements for gathering and processing data in electronic form.

In 2016, Latvia became the 35th member of the OECD. Although the OECD guidelines for adopting SAF-T are in the nature of recommendations, Latvia might decide to adopt SAF-T after evaluating other countries' experience and potential benefits in the long term.

According to the guidelines, each country can choose its own way of adopting SAF-T, and experience suggests that this process might take 1–2 years at country level and between one month and one year at company (taxpayer) level depending on how complicated a particular company's system is.

Preparations under way

Several pieces of European and Latvian legislation pave the way for digitalisation and standardised e-reporting requirements:

- Under Directive (EU) 2016/881 of 25 May 2016 as regards mandatory automatic exchange of information in the field of taxation, Latvia is to pass the requirements of the directive into its national legislation by 4 June 2017. Proposals for amending the Taxes and Duties Act were announced on 2 March 2017;
- The Economic and Financial Affairs Council is debating how to build a common corporate tax base, which to a certain extent correlates with the transfer pricing information exchange requirements;
- Directive 2014/55/EU of the European Parliament and of the Council of 16 April 2014 on electronic invoicing in public procurement requires that the public sector should become a user of the electronic invoice and engage private-sector employees in cooperation with the public sector from 27 November 2018;
- Requirements for cash registers with an electronic ribbon and the option of connecting the cash

register system to a computer.

Implementing these initiatives is associated to a certain extent with preparations for digitalising the accounting system. Considering the EU experience, Latvia has the opportunity to evaluate costs and benefits of the actual users. If Latvia does decide to adopt SAF-T, then it would advisable to allow 18–24 months for implementation and to build on other countries’ experience.

The experience of using SAF-T in countries such as Portugal, Luxembourg and Poland suggests that filings in standardised form facilitate data analysis when national tax authorities conduct electronic audits. On the other hand, a standardised approach helps companies enhance the quality of their tax data in the long term, make their operations more efficient, improve their tax data processing function and the process of tax administration, and better manage potential data discrepancies. In the long term, exchanging information in electronic form will improve and speed up data exchange between the national tax authorities.