

Deducting input VAT paid before VAT registration (2/33/17)

It is not unusual for traders not to register for Latvian VAT right after they are incorporated and to do so at a later date. What invoices qualify for deduction of input VAT? Can input VAT be deducted only on invoices that were issued and received after the trader registered for VAT?

The legal framework

Section 93 of the VAT Act provides for a taxable person's right to deduct input VAT on goods acquired or imported and on services acquired before he registered for VAT. This rule allows EU and non-EU taxable persons registered for Latvian VAT to deduct input VAT on goods and services they acquired before their VAT registration. However, the VAT deduction entitlement is subject to several criteria a trader must satisfy when preparing his first VAT return.

Input VAT deductions may be made on goods that are recorded under inventories according to the results of an inventory count on the date of VAT registration, on fixed assets according to their book value on the date of VAT registration, on goods and services the taxable person has used for making his own assets, and on services according to a list approved by the taxable person's authorised officer.

Restrictions on input VAT deduction

The right to deduct any input VAT a trader paid before registering for VAT does not apply to –

- goods acquired earlier than 12 months before the VAT registration;
- services acquired earlier than three months before the VAT registration.

Pre-registration input VAT is not deductible on various administrative expenses such as –

- lease of office space,
- office maintenance services,
- electronic communications services,
- fuel purchases, and
- vehicle hire services.

Also, input VAT is not deductible on the purchase of a light-duty passenger vehicle unless it is or will be used for making taxable supplies such as driving lessons, taxi services, light-duty passenger vehicle hire, and the supply or hire-purchase of light-duty passenger vehicles.

Practice

The law provides that after registering for VAT the taxable person should file his first VAT return and documents supporting his deductible input VAT. In practice this can be done by including any pre-registration supplies on the first VAT return for the tax period, subject to the restrictions outlined above. Along with the VAT return, an application should be prepared giving details of any goods and services acquired before the VAT registration that are included on the VAT return, and describing the type and substance of those goods and services, and how they meet the statutory criteria for input VAT deduction. Similar information should be filed for goods recorded under inventories, including the taxable person's

own products, according to the results of an inventory count on the date of VAT registration, and for fixed assets according to their book value on the date of VAT registration. This information should be filed simultaneously with the VAT return through the State Revenue Service's Electronic Declaration System.