

Filing annual VAT return (1/17/18)

Taxable persons may be required under the VAT Act to file not only monthly or quarterly VAT returns but also the VAT return for the year. For several years the annual filing requirement has been restricted to taxable persons specified by the VAT Act. This article takes a look at some of the aspects the taxable person needs to consider when filing the annual VAT return.

The VAT Act: filing the VAT return for the tax year

The VAT Act (Section 117(5) of the VAT Act) provides that a registered taxable person should file the VAT return for the tax year in the following cases:

Section 117(5)	Brief explanation
1) Where the taxable/exempt ratio for the tax year changed, and the VAT Act does not provide otherwise	A taxable person makes taxable and exempt transactions, and uses a ratio for input tax deduction specified by section 98(2) of the VAT Act (even if he keeps a partially separate record using the ratio). This requirement also applies to a taxable person who exercises the right to deduct input tax for tax months without adjustment because his transactions giving the right to deduct input tax exceed 95% for the tax period.
2) Where output tax or deducted input tax was adjusted under the VAT Act	A taxable person cancelled some transactions, or some goods he had supplied were returned, or the export value dropped or rose, or the value of exempt transactions changed during the tax year etc.
3) Where any of the transactions specified by section 38(2-3) of the VAT Act were carried out	If a taxable person makes transactions associated with trading in currencies, other money market instruments, financial derivatives or transferable securities under the Financial Instruments Market Act (including currency futures), or if the holder of transferable securities or shares sells them for a price exceeding their nominal value, then he is required to consider the sum of those transactions for the tax year by adding up all the positive and negative amounts when filing the annual VAT return.
4) Where a deposit scheme operates for reusable packaging under packaging legislation	This rule is not applicable because Latvia has yet to set up a deposit scheme for reusable packaging.

VAT adjustments for real estate (RE)

Since VAT on the acquisition, construction, renovation, reconstruction or restoration of unused RE is deductible according to its expected use ratio, the taxable person is required under the VAT Act to adjust his deducted input tax each year according to the actual use ratio for the tax year.

Accordingly, over a period of ten years, counting from the tax year the RE was acquired or accepted for use, and for subsequent nine years the taxable person should notify the State Revenue Service (SRS) of how the RE was used during the tax year for transactions giving the right to deduct input tax, and for transactions that do not give this right, on or before 1 May in the following tax year. The taxable person should recalculate the ratio, measure the amount of VAT payable to or refundable by the government, and submit part B of the statement of RE use along with the annual VAT return.

It is important to note that input tax should be adjusted for each property and tax year separately by

calculating the difference between one-tenth of the deducted input tax and the deductible input tax for the tax year according to how the RE was actually used. The taxable person should either pay the difference to, or obtain a refund from, the government.

Times limits for filing and payment

The taxable person should meet a number of statutory conditions for filing the annual VAT return and paying VAT:

- The annual VAT return should also be filed by a registered taxable person who has traded for less than a year (Section 117(6) of the VAT Act);
- The sum of tax periods of the calendar year represent the tax year (Section 115(9) of the VAT Act);
- A registered taxable person should file the VAT return for the tax year with the SRS and pay the VAT liability on or before 1 May in the following tax year (Sections 118(5) and 119(6) of the VAT Act).