

Latest VAT developments (1) (1/30/19)

Earlier this summer, Parliament adopted some long-awaited amendments to the VAT Act¹ and to the Cabinet of Ministers' Rule No. 17 of 3 January 2013, *Application of provisions of the VAT Act and certain requirements for paying and administering VAT*.² This series of articles explores what we see as key changes to the VAT treatment.

Amendments to ease the administrative burden

As from 2021, Latvia is introducing a single tax account allowing multiple tax payments to be made in a single payment, and VAT will be payable to the government within 23 (currently 20) days after the end of a tax period. Taxable persons liable to pay VAT under a special scheme prescribed by section 140.1 of the VAT Act to account for VAT on supplies of electronic communications, broadcasting and electronically supplied services to non-taxable persons will keep the current time limit for paying VAT, i.e. 20 days after the end of a tax period.

Amendments passing EU voucher rules into Latvian law

Amendments effective from 1 July 2019 prescribe a uniform approach to various instruments, such as gift vouchers and prepayment cards, that can be exchanged for goods or services. These instruments are now termed "vouchers," distinguishing between single-purpose and multiple-purpose types. Each type has a different VAT treatment.

For a single-purpose voucher, which means that the place of supply of the underlying goods or services and the applicable rate of VAT are known when the voucher is issued, VAT applies on its issue and onward supply in a similar way to receiving a prepayment for a supply of goods or services. So, a supply of the underlying goods or services is considered to take place when the supplier receives a consideration for the single-purpose voucher, and VAT should be reported on a VAT return for the tax period in which the consideration was received. Exchanging a single-purpose voucher for goods is not considered a supply.

Multiple-purpose vouchers will have a completely different treatment. The issue or onward supply of such a voucher is not considered a taxable supply. Only the delivery of goods or services in exchange for the voucher will be taxable. Also, the VAT Act provides that VAT is included in the value of a voucher.

Because Council Directive (EU) 2016/1065 of 27 June 2016, which lays down the VAT treatment of vouchers, is silent about situations where the end consumer fails to use a multiple-purpose voucher before it expires and the supplier keeps the fee for it, this issue remains unresolved by national legislation, leaving room for various interpretations.

Amendments to section 27 of the VAT Act following the adoption of EU law in e-commerce (Directive 2017/2455 of 5 December 2017)

To ease the administrative burden on business and to encourage small and medium entities to enter into cross-border e-commerce transactions, from 1 July 2019 there is a threshold of €10,000 for electronic communications, broadcasting and electronically supplied services (total cross-border transactions excluding VAT). Without exceeding this threshold, the customer may choose whether the place of supply

remains in the supplier's member state or whether it passes to the customer's country, as before. And if a taxable person has opted to ignore the threshold for changing the place of supply of services and determines it according to where the customer belongs, this approach must continue for at least two calendar years. Clarifications and restrictions on applying the threshold are prescribed by new subsections 3, 4 and 5 of section 27 of the VAT Act.

Section 128 of the Act has also been amended to require that suppliers of electronic communications, broadcasting and electronically supplied services should issue tax invoices under the rules of the country of identification, which is determined in accordance with section 140.1(1)(2) of the VAT Act.

Suppliers of electronic communications, broadcasting and electronically supplied services are still allowed to avoid having to register for VAT in each member state if they have opted for the special Mini One Stop Shop (MOSS) scheme.

Amendments to reverse-charge VAT on supplies of metal products and related services aligning the scope of section 143.4 of the VAT Act with article 199.a(1)(j) of Directive 2006/112/EC to restrict reverse-charge categories

From 1 July 2019, reverse-charge VAT is restricted to supplies of semi-finished ferrous and non-ferrous metal products prescribed by Cabinet Rule No. 17, and reverse charge no longer applies on services related to those supplies. Rule No. 17 has been amended accordingly (new Appendix 7, *Semi-finished ferrous and non-ferrous metal products attracting a special scheme*).

Amendments to reverse-charge VAT on supplies of construction products, consumer electronics and domestic electrical appliances in compliance with the European Commission's prohibition (sections 142 and 143.5 of the VAT Act)

As from 2020, reverse-charge VAT will no longer be applicable on domestic supplies of construction products, consumer electronics and domestic electrical appliances.

(to be continued)

¹ A total of three pieces of legislation adopted on 23 and 30 May and 20 June 2019

² Passed by the Cabinet of Ministers on 2 July 2019