

Latvia set to mandate electronic flow of supporting documents from 2025 1/42/21

On 12 October 2021 the Cabinet of Ministers debated and endorsed “[Adopting a System of Electronic Flow of Supporting Documents and Waybills](#),” an informational report prepared by the Ministry of Finance (MOF) that mandates the use of electronic supporting documents and e-invoices by 2025. E-invoicing will be mandatory between businesses (B2B) and between businesses and government agencies (B2G).

The report's findings

The MOF finds that a nationwide transition to digital flow of documents should be planned and implemented at strategic level. The MOF emphasises that it is useful to build the entire national digital documentation approach and flow as a single concept and strategy at national level in order to prevent duplication of effort and help the taxpayer avoid having to enter the same information in various unconnected information systems. This would provide a more efficient flow of information and data for the tax authorities, taxpayers, and other institutions. It is important to note that an e-invoice in the report means a structured invoice, i.e. one that has been prepared, sent and received in a structured electronic format.

The MOF finds that based on the experience in other countries that have adopted a total or partial flow of e-invoices and e-waybills, a benefit from adopting the electronic flow of supporting documents would be the systematisation of documents according to a single template. This would minimise the risk of error and make it possible to align accounting systems with the e-invoicing system and the State Revenue Service (SRS). This would ensure a faster flow of information as the documents will be located together and taxpayers will see their costs reduced around paper documents and their flow. The use of e-invoices and e-waybills could become an effective tool for minimising the shadow economy, make the SRS's work more efficient, and stop illegal taxpayer practices such as doing business without supporting documents, backdating documents, and issuing documents for transactions that never took place. This would reduce opportunities for tax evasion, thereby minimising the risk of tax default.

Given the increasing significance of digital evolution and care for the green economy, this will accelerate the move towards a modern and safe paperless environment and the adoption of technologically advanced solutions.

Latvia currently allows voluntary use of electronic supporting documents. The legislation lays down the applicable standard for a structured electronic invoice, with specifications for using its basic elements and flow procedures only in public procurement. Government agencies and municipal institutions are required by law to be able to accept electronic invoices matching specifications the EU has prescribed for the basic elements of electronic invoices for use across the EU.

With mandatory e-invoices affecting the work done by private persons and government agencies, the MOF has to take special explanatory measures and work on appropriate legislative amendments before mandatory e-invoicing can be adopted.

The VAT directive, however, provides that VAT invoices may be paper as well as electronic, and using an e-invoice is subject to the recipient's consent. So, to mandate the use of VAT e-invoicing, Latvia has to apply to the European Commission for a derogation from the VAT directive's provisions.

With support from the Cabinet of Ministers for the adoption of mandatory e-invoicing in Latvia, work on necessary legislative changes and technological solutions will begin soon. In the coming editions of Flash News we will be informing our MindLink.lv subscribers about any legislative amendments the government passes to drive the transition to mandatory e-invoicing.