

# VAT Act to be amended 3/47/23



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The Finance Ministry has come up with a number of proposals for amending the VAT Act from 2024. The goals are to improve the VAT rules by exempting VAT on services that are closely linked to sports, to minimise the administrative burden, to encourage improvements to the business environment, and to revise the conditions for how registered taxable persons can adjust input tax paid on bad debts. The proposals must be approved in their second reading by Parliament before they can take effect. This article explores what we see as key changes to the VAT Act.

## Treatment of sports

The VAT Act and the Cabinet of Ministers' Rule No. 17, *Application of provisions of the VAT Act and certain requirements for paying and administering VAT*, exempt VAT on educational services, including sports-related services, and on accommodation for children up to 18 years old in recreational and sports camps if those services are supplied by an educational institution entered on the Register of Educational Institutions (REI).

Sports-related services are organised not only by REI-registered institutions but also by other entities such as non-REI registered associations licensed by local municipalities. In practice, VAT is exempt on fees for accommodation for children in a camp, not accommodation for children in recreational and sports camps.

The proposals exempt VAT on fees for entering sports competitions charged by registered associations and foundations, as well as on fees for sports classes (regardless of the type of sport) offered by such associations and foundations to persons going in for sports if such competitions and classes are organised for any purpose other than gaining extra income. The proposals no longer place an age restriction on persons going in for sports with exempt fees. The proposals also exempt VAT on fees for accommodation for children in camps that are organised and run according to the law on education.

## The VAT registration threshold

To simplify the VAT scheme and ease the administrative burden on small businesses, the VAT Act permits a domestic taxable person not to register for Latvian VAT if his total taxable supplies of goods and services did not exceed EUR 40,000 in the last 12 months.

Inflation is pushing up business revenues as well as the prices of goods and services. Raising the VAT registration threshold to EUR 50,000 would mitigate the consequences of inflation for small businesses and meet the goal of this exemption – to ease the administrative burden of VAT compliance.

Taxable persons may still continue to register for Latvian VAT whether or not the threshold is exceeded and to recover input tax on goods and services they acquire to make taxable supplies.

## Luxury executive vehicle (LEV) maintenance expenses

Because the depreciated cost of a motor vehicle (including an LEV) in long-term use shrinks and running expenses go up, proposals for amending the Corporate Income Tax (CIT) Act prescribe a 60-month period after which the registered owner or possessor of an LEV can treat its fuel and running expenses as business expenses. The CIT rules that restrict business expenses on LEVs are closely linked to the VAT Act's restriction on input tax recovery, so it was necessary to revise the VAT rules, too.

The proposals for amending the VAT Act make the restriction on input tax recovery applicable to an LEV's maintenance costs (including repairs and fuel) incurred in a 60-month period counting from the date it was registered in a taxable person's ownership or possession.

## Adjusting input tax on bad debts

Section 105 of the VAT Act permits registered taxable persons to adjust input tax paid on bad debts. The aim is to give a supplier of goods or services the right to deduct his bad-debt input tax from his output tax.

The current rules state that if a supplier's bad receivable from one customer excluding VAT is less than EUR 430, the registered taxable person can deduct his bad-debt input tax from his output tax after meeting several conditions. If this threshold is reached or exceeded, the taxable person can deduct his bad-debt input tax from his output tax if the conditions are met and if there is a court order on debt recovery from the customer plus a bailiff's note stating that recovery is impossible. The current rules also provide that business with the supplier must be terminated for six months before the bad-debt input tax can be deducted from the output tax.

To minimise the administrative burden on taxable persons and on the State Revenue Service and to encourage improvements to the business environment, the proposals for amending the VAT Act provide:

- The ex-VAT bad debt threshold per customer is raised to EUR 1,000 (up from EUR 430).
- Supplies of goods or services to that customer ended at least three months earlier (down from six months).
- The supplier of goods or services can report the bad-debt input tax on his current VAT return (this had to be done on the VAT return for March or the first quarter in the following tax year).

The amendments relating to the bad-debt value per customer will affect tax invoices issued on 1 January 2024 or later.