

Application of VAT to transactions on online platforms (2) 3/11/25



Manager, Tax, PwC Latvia
Matiss Auzins

Conclusion of the article from the previous week.

Registration for VAT purposes in Latvia

All taxable persons are obliged to register for VAT purposes, unless they can be considered a small business, i.e., if the total value of taxable transactions carried out domestically and also certain non-taxable transactions (financial, insurance and investment fund management, sale of real estate, rental of residential premises, services for which the owner of a building or structure is entitled to pay consideration for the right to use a legal property if the building or structure is considered a separate asset) does not exceed EUR 50,000 per calendar year (+EUR 5,000 per year).

For small and medium-sized enterprises (SMEs) that carry out cross-border transactions in the European Union (EU), a special SME regulation has been in force since this year that exempts transactions to another Member State from tax. To be eligible for the scheme, the registration threshold must be met in the member state concerned, and the annual turnover in the European Union must not exceed EUR 100,000.

Those benefiting from the SME scheme should obtain the SRS VAT number with the code "EX" (the special registration procedure under Article 1 of Law 139 on VAT). The SRS should coordinate the application of the exemption in each Member State where it is planned. Of course, SMEs are not entitled to deduct input VAT.

By the end of the month following the calendar quarter, SMEs must report quarterly on:

- the amount of domestic sales;
- the amount of sales made in each Member State.

If a Latvian taxpayer who has acquired the right to apply the tax exemption in, e.g., Lithuania exceeds the VAT registration threshold set in Lithuania, the Latvian company loses the right to tax exemption in Lithuania, but not in Latvia.

It is important to note that registration for VAT purposes is usually required when a taxable person supplies services whose place of supply is in another Member State under Article 19(1) of the VAT Law and for which the recipient of the services is liable for the tax. Registration for VAT purposes must take place before the service is supplied. This means that such a taxable person must not only register the service provided, but from now on must also subject all domestic supplies of goods and services to VAT.

In addition, any non-taxable legal person is deemed to be a taxable person if it acquires goods or receives services in the territory of the EU, the place of which is determined under Section 19(1) of the VAT Law.

Until 1 July 2025, taxable persons whose acquisitions in the EU exceed EUR 10,000 per year or who receive such services domestically, the place of which is determined under Section 19(1) of the VAT Law, must register under the usual procedures and must also charge VAT on their domestic supplies of goods and

services. From 1 July 2025, these taxable persons will only be able to use the VAT identification number for the payment of VAT on intra-Community acquisitions and services received, while the services provided (supplies of goods) will only be subject to VAT once the registration threshold set out in Section 59 has been reached. We assume that registration for the receipt or acquisition of services does not affect the use of the SME scheme for cross-border transactions within the EU.

It is assumed that the taxable person who currently uses the services of the Etsy platform domestically must register for VAT purposes in the usual way. The taxable person must pay VAT on the service received and apply VAT to all domestic transactions from the date of registration. Registration for VAT purposes does not prevent SMEs from benefiting from cross-border transactions in the EU, e.g. for supplies to Lithuania, if the registration threshold in Lithuania is not met (or a turnover of EUR 100,000 in the EU has not been reached). After 1 July 2025, it will be possible to register only for the payment of VAT on services received (another special registration procedure set out in Law 139 on VAT. Section 2), and purchases of goods will be made in the EU without VAT being charged on their domestic transactions until the registration threshold is reached in Latvia.

OSS

As mentioned above, users of platforms must pay attention to whether the transaction is subject to VAT in another country or register there. In this context, it should be borne in mind that registration in another state is not the only way to pay VAT on services rendered or goods supplied if the place of supply is in another Member State. It is possible to register for the OSS VAT special scheme that allows an EU VAT payer to declare VAT due in other EU Member States in only one EU Member State. The OSS scheme can be used when cross-border transactions are made with non-taxable persons or non-registered taxable persons.

The SRS methodological material contains a number of practical examples for calculating the registration threshold and declaring transactions as well as other useful information.