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Parliament Reviews New VAT Rules

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COUNTRY DIGEST

Parliament Reviews New VAT Rules

Latvia's Cabinet of Ministers on September 14 submitted to the Parliament a draft law (1434/Lp9) that would enact the VAT rules in Directive 2006/112/EC.

If approved, the draft law would enter into force October 1. The new VAT rules would grant VAT payers:

- the option to merge into a VAT payers group;
- the right to deduct bad debt from the amount of VAT payable; and
- VAT exemptions for importing goods.

VAT Payers Group

Associated taxable persons would be allowed to merge into a VAT payers group that would operate as one VAT payer. The group must be registered with the State Revenue Service. It would have a joint VAT payer number and file a joint VAT report.

Members of the group would continue to provide their individual VAT numbers in any deal. Also, each member must submit a report on the input tax amounts and the delivery of goods within the EU.

To create a group, in the previous 12 months, the value of the services and deliveries of goods subject to VAT for at least one member must be at least LVL 250,000. Also, only persons subject to VAT may be part of the group, and a person may not belong to more than one group.

Members are subject to joint liability, which lasts three years after the group ceases to exist.

Bad Debt

Under the draft law, payable bad debt from unrelated persons could be deducted from VAT when the value for one client is less than LVL 300, excluding VAT. If the value of the bad debt is higher than LVL 300, evidence of the inability to recover the debt would be required. Bad debts occurring since January 1, 2009, would be eligible for deductibility. Deliveries must have been interrupted for at least six months. The debt cannot be assigned, and there must be evidence of attempts to recover it.

The debtor should be informed that his debt for VAT purposes is recognized as bad debt and should repay to the state the deducted input tax.

Exemption for Import of Goods

Under the option not to pay VAT for the import of goods from third countries, payment of the import VAT can be postponed until it is listed in a subsequent monthly VAT report.

However, permission must first be obtained from the State Revenue Service, a procedure that will be established in later regulations from the Cabinet of Ministers. Permission is not required if a taxpayer imports its own capital assets worth at least LVL 500 and does not plan to alienate those assets within the following 12 months.

Comments

These VAT rules would make VAT administration more efficient and simplify taxpayer duties. The payment procedure will be easier, and taxpayers' competitiveness and efficiency will be increased. The rules should also aid in the development of Latvia's economic and business environment. ◆

♦ *Valters Gencs, Law Firm Valters Gencs, Riga*