

# Latvia

## The amendments in VAT law.

The following amendments in Latvian law "Value Added Tax" (hereinafter –“VAT”) have been accepted by Latvian parliament effective from 1 January 2014.

### Real estate property transactions

Amendments were made in the definitions of following VAT taxable real estates – *building land* and *unused real estate*. In accordance with the recent changes, plot of land is no more considered as a *building land*, if construction permit has been issued:

- before 31 December 2009, and after 31 December 2009 it has been extended or renewed;
- after 31 December 2009, however the purpose of usage of a plot of land has been changed and no longer implies construction works.

Furthermore, as *unused real estate* will be considered not only specific type of buildings defined in the VAT law but also land on which the building stands.

### Representative passenger car

The input VAT is no longer deductible with respect to the acquisition and use of representative passenger car, which is obtained as from 1 January 2014. Representative passenger car is defined as a car that has a seating capacity of 8 passengers or less excluding the driver and the value of which exceeds the limit of EUR 50'000 (excl. VAT). Input VAT will no longer be deductible for:

- purchase, rent, import of representative passenger car;
- maintenance expenses related to such car (including repair and oil expenses).

However, above mentioned restriction to deduct input VAT will does not apply if passenger car:

- is used for the purpose of VAT taxable transactions, i.e.:
  - carriage of passengers for the remuneration, including taxi services;
  - passenger cars rent services;
  - sale of cars and car lease transactions;
  - services related to the transportation of goods;
  - training of driving skills;
  - provision of security services.
- serves as an emergency vehicle;
- is used as a demonstration car by an authorized car dealer;
- is used for the purpose of VAT taxable transactions (certain evidence must be in place supporting the fact that the car is used for VAT taxable business purposes only).

### Deductible input VAT pro-rata

As from year 2014, the deductible input VAT proportion (pro-rata) on an annual basis must be determined as percentage and rounded up to nearest whole number (e.g. if the resulting annual deductible input VAT proportion is 92,2%, then for input VAT deduction purposes rounded up proportion of 93% must be applied).

### VAT exempt transactions

Starting from 1 January 2014 the following VAT exemptions were introduced in Latvian VAT Law in accordance with the Article 136 b and Article 132 (1) f of Council Directive 2006/112/EC on the common system of value added tax. VAT exempt:

- Supply of goods on the acquisition or application of which VAT was not deductible, since initially goods were acquired for the purpose other than to perform VAT taxable transactions.
- Supply of services by independent group of persons, if the following criteria are met:
  - members of the group are carrying on an activity which is exempt from VAT or in relation to which they are not taxable persons;
  - provision of services to other members of the group is directly necessary for the exercise of the above mentioned activity;
  - group claim from their members exact reimbursement of their share of the joint expenses;
  - services rendered do not cause distortion of competition.

Rudite Putnina  
Manager  
Deloitte Latvia  
rputnina@deloittece.com

Janis Cupans  
Director  
Deloitte Latvia  
jcupans@deloittece.com