

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.

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