



Tax&Legal Highlights

Latvia

Latvia introduces country-by-country (CbC) reporting

On 8 June 2017 Latvian government has approved changes in legislation regarding CbC reporting.

Tax payer will be subject to CbC reporting in Latvia for a fiscal year commencing on or after 1 January 2016 (following rules provided by EU Directive 2016/881 of 25 May 2016 amending Directive 2011/16/EU).

Detailed reporting requirements (content, structure, and timing) will be provided by Cabinet Regulations that are yet to be drafted.

Changes in Latvian VAT legislation

The following amendments have now been officially adopted by the Latvian government with effect from 1 June, 2017.

1. New wording with respect to the taxation period in which input VAT for locally acquired goods and services can be deducted has been introduced. The new wording states that input VAT for locally acquired goods and services must be deducted in the taxation period in which the goods or services were received and a tax invoice received or in the taxation period in which an advance payment for the goods or services was made, however

no later than in the next taxation period, which follows this taxation period. Thus from the new wording introduced it would follow that the input VAT can be claimed either in the same or next taxation period in which the goods or services have been received and a tax invoice has been received. For example, if goods were to be received in November, and invoice was to be received by the accounting department in December, input VAT could be claimed in either the December or January VAT return.

2. Adjustment in criteria for VAT deduction for bad debts have been introduced. In order to recover output VAT paid on bad debts various criteria must be met. One of the criteria is that the bad debt must have occurred within the last three fiscal years. Furthermore, depending on the amount of the bad debt and the debtor, in some cases the VAT on the bad debt can only be recovered after the completion of insolvency, bankruptcy proceedings or the receipt of either a court judgment on garnishment or a bailiff act on the impossibility of debt recovery. Considering that these procedures can exceed three years it is possible that after their completion the criteria on the debt occurring within the last three fiscal years is no longer valid. Thus an adjustment in the VAT Law was made, allowing VAT recovery on bad debts also in cases where within three years after the occurrence of the bad debt:

- a) an application for bad debt collection has been brought to court;
- b) bankruptcy proceedings have been initiated;
- c) insolvency proceedings have been initiated.

3. The terminology in Latvian VAT Law regarding construction services has been amended in order to be in line with the new Construction Law. The changes are with respect to specific Latvian terms and words (for example, the word reconstruction changed to rebuilding) used within the VAT law, however they do not change the current VAT application for goods and services connected with real estate.

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