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If a whole or part of a section has been amended, the date of the amending law appears in square brackets at the end of the section. If a whole section, paragraph or clause has been deleted, the date of the deletion appears in square brackets beside the deleted section, paragraph or clause.

The *Saeima*<sup>1</sup> has adopted and  
the President has proclaimed the following Law:

## On Value Added Tax

### Chapter I General Provisions

#### Section 1. Terms Used in this Law

The following terms are used in this Law:

1) **goods** – any thing (property) exchanged by the owner thereof for consideration, unless otherwise prescribed in this Law;

2) **supply of goods** – a transaction, which is manifested as the transfer of the property rights of a thing to another person, so that he or she may act with the thing (property). The sale of immovable property or its parts, as well as transactions which are performed in accordance with concluded hire-purchase (leasing) contracts shall also be considered as the supply of goods;

<sup>1</sup> The Parliament of the Republic of Latvia

3) **supply of services** – a transaction, which is not the supply of goods within the meaning of Clause 2 of this Section, but is:

- a) an activity which a person performs within the scope of his or her economic activity, also self-employed person activities;
- b) the selling (transfer) of intangible property (intangible values and rights);
- c) the obligation to refrain from some activity or action or to allow some activity or action;
- d) the leasing of property; and
- e) the transfer of immovable property to the owner thereof after the completion of construction work;

4) **consideration** – monetary value of goods and services, which the supplier or the provider of services receives, or which he or she are to receive, from a purchaser or other person as payment (including excise duty and other taxes and fees) for supply of goods or supply of services, irrespective of whether the payment is made in full or partially;

5) **home consumption** – the supply of goods or the supply of services to an entrepreneur, his or her family members, employees and other persons without consideration if it is not an economic activity of the taxable person;

6) **economic activity** – any activity for consideration, which is not payment for employment by an employer, or other consideration to an employee, from which mandatory State social security payments and personal income tax is calculated;

7) **a person taxable with the value added tax (hereinafter – taxable person)** – a natural or legal person and groups of the persons referred to who are bound by contract or agreement, or representatives of such groups, who are registered in the State Revenue Service Register of Value Added Tax Taxable Persons;

8) **inland** – the customs territory of the Republic of Latvia;

9) **input value added tax** – the value added tax sum which:

- a) is indicated on written value added tax invoices for a taxable person regarding goods acquired or services received to ensure his or her economic activity,
- b) is calculated regarding the acquisition of goods in the territory of the European Union, on the basis of written value added tax invoices for a taxable person by other Member States of the European Union (hereinafter – other Member States),
- c) is calculated for services received in the territory of the European Union or inland, on the basis of written value added tax invoices for a taxable person by other Member States or written invoices in the territory of the European Union by non-registered persons,
- d) payment in advance for goods or services,
- e) payments to the customs authority for goods imported inland, and
- f) paid out as compensation to a farm in accordance with Section 13.<sup>1</sup> of this Law;

10) **agent** – a person who participates in the supply of services or in the supply of

goods without becoming the owner of such goods, in order to realise the interests of other persons in transactions regarding the supply of goods or the supply of services, and receives consideration only for intermediary services;

11) **budget authorities** – State and local government institutions and organisations, the maintaining of which are financed from the State budget or the budgets of local governments;

12) **market value where goods are supplied or services provided** – consideration for goods or services, on the assumption that the goods are supplied, or the services are provided, in order to make a profit;

13) **customs value** – a value, which is determined in accordance with regulatory enactments in customs matters;

14) [20 December 2004]

15) [20 December 2004]

16) **unused immovable property:**

a) newly built buildings or structures (also stationary equipment installed therein), if such are not utilised, rented or leased after being approved for use,

b) newly built buildings or structures, if such are sold within one year after being approved for use, regardless of the form of their utilisation until the time they are sold,

c) buildings or structures if such are sold within one year after renovation, reconstruction or restoration work has been accepted, and

d) objects the construction of which is not completed;

17) **import of goods** – the importation of goods for inland from third countries or third territories;

18) [20 December 2004]

19) **agricultural products processing undertakings:**

a) undertakings (companies) which perform the initial processing of agricultural products (including integrated dairy undertakings, integrated meat processing undertakings, integrated preserved food undertakings, grain processing plants, sugar refineries),

b) feedstuff production undertakings (companies) which process acquired unprocessed agricultural products, and

c) [11 March 2004];

20) **co-operative societies** – agricultural and fishing co-operative societies, as well as flat owner co-operative societies.

21) **hire-purchase (leasing)** – a supply of goods transaction in which the lessor on the basis of an entered into hire-purchase (leasing) contract, for a specified time period and for the leasing payments specified in the contract, transfers for use to the lessee a particular good (object of the lease), providing for in the hire-purchase (leasing) contract that the object of the lease shall devolve to the ownership of the lessee if the lessee has performed all payments specified in the contract;

22) **crediting of leasing** – [11 March 2004]

23) **territory of the European Union** – the territory of the Member States of the European Union, which is specified in Article 299 of the Treaty establishing the

European Community;

24) **third territory** – territory of European Union Member States to which in accordance with Article 299 of the Treaty establishing the European Community, the Treaty establishing the European Community does not apply, as well as the following territories of European Union Member States:

- a) Federal Republic of Germany – the Island of Heligoland, the territory of Buesingen,
- b) Kingdom of Spain – Ceuta, Melilla, the Canary Islands,
- c) Republic of Italy – Livigno, Campione d'Italia, the Italian waters of Lake Lugano,
- d) French Republic – the overseas departments, and
- e) Hellenic Republic – Mount Athos;

25) **third country** – states that are not member states of the European Union;

26) **a person not taxable with the value added tax (hereinafter – non-taxable person)** – a person who does not conform to the conditions of Clause 7 of this Section and whose legal address or declared place of residence is the Republic of Latvia;

27) **other Member State taxable person** – a person who in a relevant transaction utilises (uses) a registration number from another Member State Register of Value Added Tax Taxable Persons;

28) **other Member State non-taxable person** – a person who is not registered as a taxable person in one of the Member States of the European Union and whose legal address or declared place of residence is in another Member State of the European Union;

29) **export of goods** – the exportation of goods for inland from third countries or third territories;

30) **means of transport:**

- a) a motorised land vehicles, the volume of the motor of which is greater than 48 cubic centimetres or capacity is greater than 7.2 kilowatts,
- b) a ship or other floating craft, which is longer than 7.5 metres, and
- c) an aircraft, which is used less than three months or has flown less than 40 hours;

31) **new means of transport:**

- a) a motorised land vehicles, which has been used less than six months or has travelled less than 6000 kilometres,
- b) a ship or other floating craft, which has been used for less than three months or has sailed for less than 100 hours, and
- c) an aircraft, which has been used for less than three months or has flown for less than 40 hours;

32) **supply of goods in the territory of the European Union** – the supply of goods if the goods are dispatched from inland or are transported to another Member State of the European Union and the dispatch or transportation of such goods is ensured by the supplier of goods or receiver of the goods, or a third person on behalf of the supplier of goods or receiver of the goods;

33) **distance supply of goods in the territory of the European Union** – the supply of goods by a taxable person to a person of another Member State, who has not

registered in the receipt of goods state as a person taxable with value added tax, and the dispatching or transportation of such goods is ensured by the supplier or a third person in the name of the supplier of the goods;

34) **acquisition of goods in the territory of the European Union** – the receipt of goods inland from another Member State if the dispatch or transportation of goods from another Member State is ensured by the supplier of goods or receiver of the goods, or a third person on behalf of the supplier of goods or receiver of the goods;

35) **triangular transactions** – the supply of goods in the territory of the European Union in which three persons are involved, moreover, each of them is registered as a person taxable with value added tax in another Member State;

36) **goods transport services in the territory of the European Union** – goods transport services if the loading and unloading of goods takes place in various Member States of the European Union; and

37) **non-registered person in the territory of the European Union** – a person registered in a third country or third territory, which has not registered as a person taxable with value added tax in any of the Member States of the European Union.

*[13 November 1997; 15 April 1999; 23 November 2000; 6 November 2003; 11 March 2004; 20 December 2004]*

## **Section 2. Transactions on which Value Added Tax shall be Imposed and the Taxable Value Thereof**

(1) [11 March 2004]

(2) Transactions performed within economic activities on which value added tax (herein after – tax) shall be imposed (hereinafter – taxable transactions) are the following:

- 1) supply of goods for consideration, also home consumption;
- 2) supply of services for consideration, also home consumption; and
- 3) importation of goods.

(2<sup>1</sup>) Transactions, which are referred to in Section 18 of this Law shall also be deemed to be taxable transactions in the territory of the European Union.

(3) The norms of this Law which regulate the application of taxes to the supply of goods or supply of services shall be applied to home consumption as a taxable transaction if this Law does not prescribe otherwise.

(4) The taxable value of supply of goods or supply of service transactions shall be the monetary market value of the goods supplied or services provided without value added tax.

(5) In the value of the supply of goods shall also be included all additional payments (including agency services, insurance, packaging and transportation), as well as customs duty, natural resources tax, excise duty and other taxes and fees if this has been provided for in concrete regulatory enactments, except for value added tax.

(6) If the supply of the container has not been calculated or charged for, its value shall not be included in the value of the supply of goods.

(6<sup>1</sup>) Deposit payments on reusable packaging, which is specified in regulatory enactments shall be included in the taxable value of the goods.

(7) In the value of services shall be included all costs, as well as all taxes and other mandatory payments which are associated with the supply of such services, except for value added tax.

(8) The taxable value of import of goods transactions shall include the customs value of the imported goods, the goods transport service value from the border of the European Union to the receiver of the goods (or the first transshipment location in the customs territory of the Republic of Latvia indicated in the goods transport accompanying documents), calculated customs duty, calculated excise duty and other calculated taxes and fees if such is provided for in particular regulatory enactments, except for value added tax, as well as includes the value of the services referred to in Section 7, Paragraph one, Clause 2 of this Law if it has not been included in the customs duty.

(8<sup>1</sup>) Deferred excise duty payments, which are applied in accordance with the Law On Excise Duty shall not be included in the taxable value of the goods.

(9) The taxable value of home consumption transactions shall be the cost price of the goods supplied or services provided.

(10) The taxable value of exchange and accounting transactions shall be the goods or service market price at the time of the supply of the goods or provision of the service.

(11) The value of agency services provided by an agent who is taxable shall be considered the agency consideration.

(12) [22 November 2001]

(13) If person who provides agency services receives full payment for supply of goods or supply of services and in his or her own name issues a tax invoice, such person shall be considered a supplier of goods or provider of services, and the value of the goods supplied or services provided shall be taxable if not prescribed otherwise in this Law.

(14) [11 March 2004]

(15) For transactions with used property, art works, collectable articles and antiquities, the tax shall be applied according to the procedures specified by the Cabinet.

(16) [6 November 2003]

(17) If buildings or structures are sold within one year after renovation, reconstruction or restoration work has been accepted, tax shall be applied to the difference between the selling price of the building or the construction and the value of such building or construction before the commencement of renovation, reconstruction or restoration work.

(17<sup>1</sup>) If unfinished construction objects are sold, tax shall be applied to the difference between the sale value of the object and its acquisition value.

(18) The taxable value of a hire-purchase (leasing) transaction shall be the market value of the object of the lease at the time of entering into the contract, as well as all the supplementary payments specified in the contract, except for credit interest.

(19) In leasing transactions the taxable value shall be all the payments specified in the leasing contract.

(20) If a person exports, in accordance with regulatory enactments in customs matters, goods from inland for processing or treatment in a third country or third territory, and afterwards imports them again inland, the taxable value of the goods shall be the value of the processing or treatment service provided.

(21) Paragraph thirteen of this Section shall not be applied to:

1) housing administrations, building administrations, owners of buildings and other persons who receive payments for public utility services together with value added tax and fully transfer such to undertakings (companies) which have provided the public utility services. In such case, tax shall be imposed on the value of the services of the cashier.

2) tourist (travel) firms and agents who receive from tourists payments for the total value of travel vouchers, in which is included also the value of services provided by other persons (including hotel, transport and public catering undertakings) together with value added tax if the services referred to are provided by taxable persons and transfer the received payments to the relevant providers of services. Tax shall be imposed on the services provided by the tourist (travel) firm and agency itself (including the formation of travel packages and the publishing of advertising pamphlets);

3) persons who provide shipping agent services, as well as freight carriage agents;

4) persons who provide the following services to Republic of Latvia international road carrier undertakings (companies):

a) completion of permits for carriage of oversized and over normal weight freight to foreign states,

b) formation of visas for road carriers, and

c) distribution of foreign fuel credit cards;

5) undertakings (companies) which perform agency services by selling:

a) tickets for regular carriage of passengers,

b) pre-paid cards,

c) insurance policies,

d) gift cards,

e) lottery tickets, and

f) entry tickets to cultural and sporting events; and

6) persons who provide other taxable persons with mass media subscription services.

(22) The norms of this Law shall not apply to the executive functions of the State performed by budget authorities (including collection of taxes, fees and fines).

*[13 November 1997; 15 April 1999; 23 November 2000; 22 November 2001; 6 November 2003; 11 March 2004; 7 April 2004; 20 December 2004]*

### **Section 3. Persons Taxable with Value Added Tax and their Registration**

(1) The registration of persons in the State Revenue Service Register of Value Added Tax Taxable Persons shall be performed in compliance with the following conditions:

1) natural persons shall be registered according to their declared place of residence;

2) legal persons shall be registered according to their legal address;

3) partnerships shall be registered according to the address recorded in the Enterprise Register;

4) if a group of persons perform joint economic activity on the basis of a contract, a natural person authorised by such a group of persons shall be registered according to his

or her declared place of residence; and

5) if any other Member State person or person not registered in the territory of the European Union performs one or more taxable transactions inland, one of the following persons shall be registered:

a) any other Member State person or a person not registered in the territory of the European Union – in one of the places where the transaction is carried out in the Republic of Latvia, or

b) their authorised person in the Republic of Latvia – according to the legal address or declared place of residence of such person.

(1<sup>1</sup>) The State Revenue Service has the right to take a decision regarding refusal to register a person in the Register of Value Added Tax Taxable Persons if such person:

1) cannot be reached at the legal address or declared place of residence indicated by him or her; or

2) after a request from the State Revenue Service, does not submit information or submits false information regarding the material and technical and financial possibilities of performing the declared business.

(1<sup>2</sup>) Registration with the State Revenue Service Register of Value Added Tax Taxable Persons for transactions in the territory of the European Union is determined by Section 26 of this Law.

(2) A budget authority shall with the State Revenue Service Register of Value Added Tax Taxable Persons if such an authority performs taxable transactions and such transactions may create significant competition distortion. The registration of a budget authority shall be mandatory if it:

- 1) provides telecommunication services;
- 2) supplies goods (including water, gas, electricity, steam and heating);
- 3) provides goods transport services;
- 4) provides port or airport services;
- 5) provides public passenger transport services;
- 6) performs agricultural intervention transactions, implementing the condition of regulations regarding the organisation of a common agricultural product market;
- 7) organises fairs and trade exhibitions;
- 8) provides warehousing services;
- 9) provides television and radio services of a commercial nature;
- 10) provides tourism services;
- 11) provides advertising services of a commercial nature;
- 12) provides public catering services (taking into account the exemptions referred to in Section 6, Paragraph one of this Law);
- 13) supplies goods for the personal use of employees; and
- 14) provides leasing services.

(3) In commencing the performance of taxable transactions natural or legal persons and groups of such persons bound by a contract or agreement, or by representatives of such groups, shall register with the State Revenue Service Register of Value Added Tax Taxable Persons.

(4) [31 December 2001]

(5) If the total value of taxable transactions carried out by natural or legal persons and groups of such persons bound by contract or agreement, or by representatives of such groups, has not exceeded the sum of 10 000 lats during the preceding 12 months, such persons, groups and their representatives have the right not to register with the State Revenue Service Register of Value Added Tax Taxable Persons. The norm referred to shall also be applied to budget authorities. Those person who utilise the rights provided for in this Section have a duty to not later than within a period of 30 days after reaching or exceeding the referred to sum to register with the State Revenue Service Register of Value Added Tax Taxable Persons.

(5<sup>1</sup>) If natural or legal persons and groups or their representatives associated by contract or agreement with such persons, within a period of 12 months, have performed only one taxable supply of goods or provided only one taxable service, the value of which reaches or exceeds 10 000 lats, or as result of this transaction the total taxable value performed within a period of 12 months has reached or exceeded 10 000 lats, they have the right not to register with the State Revenue Service as a taxable person, if this transaction is not associated with the economic activities of the persons referred to.

(5<sup>2</sup>) If the transaction referred to Section 5<sup>1</sup> of this Section within the period of the next 12 months is repeated, then the persons, not later than within a period of one month after the performance such a repeated transaction, shall register with the State Revenue Service as a taxable person.

(6) [20 December 2004]

(7) A person shall be considered as registered in the State Revenue Service Register of Value Added Tax Taxable Persons on the day when he or she has been issued with a taxpayer registration certificate.

(8) A taxable person may apply to the State Revenue Service with a submission regarding their exclusion from the register of taxpayers not earlier than one year after the time of registration, if it is not prescribed otherwise in this Section.

(8<sup>1</sup>) The State Revenue Service has the right, in accordance with the procedures specified by the Cabinet, to exclude a person from the register of taxpayers earlier than one year after the time of registration, if:

- 1) the relevant undertaking (company) has been liquidated or reorganised;
- 2) the taxable person within a period of one month after the time period for submission of tax declarations specified by law does not submit a tax declaration, in the tax declaration has provided false information, or following a written request from the tax administration has not provided documents for verification of tax calculations; and
- 3) the State Revenue Service in accordance with Section 35 of the Law On Taxes and Fees has submitted to the Enterprise Register a proposal regarding the deletion of the taxpayer from the Enterprise Register.

(8<sup>2</sup>) A taxable person shall be considered to be excluded from the register of taxpayers, commencing from the day when the State Revenue Service has published a notice in the newspaper *Latvijas Vēstnesis* [the official Gazette of the Government of Latvia] regarding the cancellation of the taxable person's registration certificate. In the case of liquidation, the taxable person shall be deemed to be deleted from the register of taxpayers commencing from the day of the end of the liquidation.

(8<sup>3</sup>) A taxable person whom the State Revenue Service has excluded from the register of taxpayers in accordance with Paragraphs eight or 8<sup>1</sup> shall calculate the residual value of fixed assets, as well as the material value of the remainder of existing goods for which the paid tax has been deducted as input value added tax, and shall pay the calculated tax from this value into the State budget not later than within a period of 30 days from the day of exclusion.

(8<sup>4</sup>) A person who is deleted from the register of taxpayers in accordance with Paragraph 8<sup>1</sup>, Clause 2 of this Section shall again register in the register of taxpayers after the submission in good time of the declaration not submitted and the payment of the of the tax amounts to be paid into budget indicated in such tax declaration, the increase in the basic debt and fines for late payments, as well as fines calculated for the non-submission of the tax declaration in good time.

(9) [23 November 2000]

(10) If a person not registered in the territory of the European Union, who does not have a specific location for the performance of economic activities or commercial activities in the Republic of Latvia, performs one or more taxable transactions inland, such person shall become registered, pursuant to the procedures prescribed in Paragraph one of this Section, with the State Revenue Service as a taxable person, shall have value added tax calculated and shall pay the tax into the budget irrespective of the value of the taxable transaction. The norm referred to shall not be applied to those persons not registered in the territory of the European Union, which provide inland the services referred to in Section 4, Paragraph seven of this Law.

(11) [11 March 2004]

(12) If a person from another Member State or a person not registered in the territory of the European Union in an inland customs warehouse or free zone performs only supply of goods transactions with goods, which are not Community goods, as well as with such Community goods for which the export procedure has been commenced, such persons need not register in the State Revenue Service Register of Value Added Tax Taxable Persons.

*[25 April 1996; 13 November 1997; 15 April 1999; 25 November 1999; 23 November 2000; 22 November 2001; 20 June 2003; 6 November 2003; 11 March 2004; 7 April 2004; 20 December 2004]*

#### **Section 4. Place of Supply of Goods and Supply of Services**

(1) The place of supply of goods and supply of services shall be determined pursuant to this Section.

(1<sup>1</sup>) Transactions in the territory of the European Union:

1) the place of acquisition of goods and supply of services shall be determined pursuant to this Section if Chapter VI of this Law does not specify otherwise; and

2) the place of supply of goods in the territory of the European Union and the place of import of goods shall be determined in accordance with Chapter VI of this Law.

(2) The place of supply of goods:

1) if the goods are dispatched or transported, it shall be the place where the goods

are located when the dispatching or transportation of the goods is commenced;

2) if the goods are not dispatched or transported, it shall be the place, which the goods are located at the time of supply;

3) if the goods are supplied to ships, aircraft or trains for further sale to passengers during the time of conveyance, it shall be the place where the conveyance of passengers is commenced;

4) if the goods are assembled or installed, it shall be the place where the goods are assembled or erected;

5) if a person is supplied with natural gas or electricity, it shall be the place of registration of economic activity or commercial activity or the legal address if:

a) the natural gas is supplied to such person utilising a distribution system,

b) the economic activity or commercial activity of such person is the buying of natural gas and electricity goods and resale, or

c) the consumption of natural gas or electricity by such person is negligible; and

6) if natural gas is supplied utilising a distribution system, or electricity and the supply thereof and Clause 5 of this Paragraph does not apply, it shall be the place where such goods are consumed.

(3) The legal address or declared place of residence of the provider of services shall be considered the place of supply of services if this Section does not specify otherwise.

(4) The place of supply of services shall be the place where the following services are provided.

1) cultural, artistic, educational, scientific, sports and other services of a similar nature, as well as the organisation of such events;

2) the re-loading and storage of goods, as well as other services associated with transportation; and

3) services associated with moveable (corporeal) things (property) (including valuation, repair and maintenance), except for the leasing of such things.

(5) The place of supply of services related to immovable property (including expert and architect services, and preparation, co-ordination and supervision of construction work services), shall be the place where such property is situated.

(6) The place of provision of transportation services shall be the place where transportation occurs. The place of the provision of passenger services shall be the place where the conveyance of passengers occurs, observing the distances travelled inland and in other states. For transportation services that are associated with the export of goods, import of goods and carriage of transit, the place of supply of services shall not be inland.

(7) The legal address of the recipient of services shall be deemed the place of supply of services for such services if the taxable person provides such services to any other Member State person who performs economic activities, or person not registered in the territory of the European Union:

1) the granting, or transferring to other persons of rights of disposition and control regarding patents, copyrights, licences, trademarks and similar rights;

2) services related to advertising or public activity – also, activity of advertising agents and advertising agencies;

- 3) legal (also advocacy, notary), accounting, auditing, consultation, translation, expert-examination, engineering, market survey and management activities, as well as the activities of the patent office;
- 4) data processing;
- 5) provision of information – also, exchange of experience;
- 6) services supplied in order to provide personnel, preparation and training of such personnel excepted;
- 7) lease of things, except lease of immovable property and transport vehicles;
- 8) telecommunication services;
- 9) services of an intermediary agent if the intermediary agent participates in the provision of the services referred to in this Paragraph;
- 10) radio and television broadcasting services;
- 11) services provide electronically, including:
  - a) supply of electronic network programs, maintenance and service of electronic networks, and the maintenance of programs and equipment at a distance,
  - b) supply and up-dating of databases and software,
  - c) supply of images, texts and information, ensuring access to databases,
  - d) supply of music recordings, films, games (including games of chance and gambling);
  - e) supply of various reportages (including political, cultural, art, sports, science and entertainment broadcasts and events); and
  - f) distance learning;
- 12) financial and insurance transactions, including re-insurance, but excepting the hire and lease of safes; and
- 13) provision of access to electricity and natural gas distribution systems, as well as transfer and distribution services and other directly associated services.

(7<sup>1</sup>) The place of the provision of the services referred to in Paragraph seven, Clause 11 of this Section shall be inland if a person not registered in the territory of the European Union provides such services to non-taxable person who does not perform economic activities.

(8) The place of supply of services in respect of guarantee repairs of goods shall be the legal address of the giver of the guarantee.

(9) [13 November 1997]

(10) [11 March 2004]

*[25 April 1996; 13 November 1997; 15 April 1999; 25 November 1999; 23 November 2000; 1 March 2001; 6 November 2003; 11 March 2004; 20 December 2004]*

## **Section 5. Tax Rates**

(1) A tax rate in the amount of 18 per cent is determined for taxable transactions, if this Law does not specify otherwise.

(2) A tax rate in the amount of 0 per cent is determined for taxable transactions in accordance with Section 7, 13, 28, 33 and 34 of this Law.

(3) A tax rate in the amount of 5 per cent is determined for taxable transactions in

accordance with Section 6.<sup>2</sup> of this Law.

[13 November 1997; 23 November 2000; 22 November 2001; 18 December 2003; 11 March 2004; 20 December 2004]

## **Chapter II** **Exemptions and Relief**

### **Section 6. Exemptions**

(1) Tax shall not be imposed on the following supplies of goods and services:

1) services (including catering) which are provided by retirement or old people's homes, welfare and rehabilitation centres and specialised welfare centres or homes, which are fully or partly financed from the State budget or budgets of local governments;

2) fees for children attending pre-school institutions;

3) catering services, which are financed from the State budget and provided in corrective institutions and places of imprisonment;

4) registration of educational, preparatory courses and admittance documents services, which are provided by State and local government educational institutions, and State-accredited private educational institutions to persons who acquire an accredited educational programme, as well as catering services, which are provided by such educational institutions. The exemption referred to shall also be applied to the educational services, which educational institutions ensure for other State educational institutions;

5) fees for professional training or retraining of the unemployed, which is organised by the State Employment Service;

6) [11 March 2004]

7) [13 November 1997]

8) the following cultural events, including entry fees for such events:

a) theatre and circus shows,

b) concerts and performances in cultural institutions,

c) library services;

d) activities of museums, exhibitions, zoos and botanical gardens, and

e) performances for children, performances of amateur arts groups and for charitable purposes;

9) [1 May 2004]

9<sup>1</sup>) medical services and services associated with medical services, which are necessary in order to ensure the provision of medical services according to a list approved by the Cabinet;

9<sup>2</sup>) supply of human organs, mother's milk and human blood;

10) supplies of gold, coins and bank notes to the Bank of Latvia;

11) betting, raffles (lotteries) and other forms of gambling;

12) [11 March 2004]

13) insurance and re-insurance services provided by insurers and insurance agents;

- 14) payments by persons for:
- a) the rent of residential premises in accordance with agreements entered into (except for guest accommodation services in guest accommodation dwellings – hotels, motels, guest houses, houses utilised for rural tourism, camping places, tourist accommodation);
  - b) the maintenance and management services of a dwelling house which are provided by the manager of the dwelling house in accordance with a dwelling house (apartment) management agreement;
  - c) [1 January 2003]; and
  - d) thermal energy;
- 15) [1 January 2003]
- 16) scientific research, which is performed with funds from public foundations, the State budget and the budgets of Local Governments, or international institutions;
- 17) the following financial transactions:
- a) granting and control of credits and monetary loans, as well as services related to sureties and guarantees and their supervision which is performed by the grantor of the credit,
  - b) services, which are related to the attraction of deposits and other refundable funds, the conduct of payments in cash and other than cash payments, and fiduciary (trust) operations,
  - c) services related to the issuing and servicing of instruments of payment, as well as trading in instruments of payment and other money market instruments, except instruments of payment supplied for collections or containing precious metals, and
  - d) services (including intermediary), which are associated with investments in capital and the holding, disposal and administration of securities, as well as the issuing of securities;
  - e) [15 April 1999]
- 18) [1 January 2003]
- 19) consular services;
- 20) [1 May 2004]
- 21) [11 March 2004]
- 22) services provided by co-operative societies (except the supply of goods) to the members of the co-operative society:
- a) maintenance and management of residential houses, and
  - b) processing and sale of agricultural and fishery products, as well as the common utilisation and maintenance of agricultural technical equipment, machinery and other tools;
- 23) sale of immovable property, including land, except for the first sale of unused immovable property;
- 24) [13 November 1997]
- 25) [11 March 2004]
- 26) postal services which are provided by the non-profit organisation State stock company *Latvijas pasts* [Latvian Post] and to which it has monopoly rights in accordance

with the Postal Services Law, as well as postage stamps, pre-stamped envelopes and international reply coupons, which in accordance with the Postal Services Law are issued and sold by the non-profit organisation State stock company *Latvijas pasts* or are sold by other persons in accordance with a contract which has been entered into with the non-profit organisation State stock company *Latvijas pasts*;

27) carriage of schoolchildren that is conducted by carriers licensed specially for this purpose if these services are financed from local government budgets;

28) phonogram producer consideration and author remuneration for works of art created by authors (including composers, artists and literary professionals), as well as consideration received by performers;

29) dental care services; and

30) private lessons provided by a teacher within the scope of the general education and higher education teaching programmes.

(1<sup>1</sup>) The exemption referred to in Paragraph one, Clause 8 of this Section may be applied to natural or legal persons and groups of such persons bound by contract or agreement, or by representatives of such groups (undertakings, institutions and organisations) if in providing such services profit is not acquired systematically. If profits are acquired, the exemption shall be applied in such case if the profit acquired is directed or invested in the improvement in the supply of such services.

(2) Tax shall not be imposed on the importation of the following goods:

1) importation of goods mentioned in Paragraph one of this Section;

2) consignments of foreign financial assistance pursuant to procedures prescribed by the Cabinet;

3) [23 November 2000]

4) [20 December 2004]

5) the importation of goods which are not subject to customs duty, except for the importation of such goods on which a 0 per cent rate of customs duty is imposed.

(3) [6 November 2003]

(4) If goods which have been imported into the Republic of Latvia without the payment of taxes in accordance with Paragraph two of this Section, except the goods referred to in Clause 1 of Paragraph two, are sold or leased, the value of the goods shall be taxable in accordance with the procedures prescribed in this Law.

(5) [23 November 2000]

[26 October 1995; 25 April 1996; 13 November 1997; 15 April 1999; 25 November 1999; 23 November 2000; 22 November 2001; 9 October 2002; 12 December 2002; 6 November 2003; 20 December 2004]

### **Section 6.<sup>1</sup> Application of 9 Per cent Tax Rate**

[1 May 2004]

[22 November 2001; 6 November 2003; 18 December 2003; 1 May 2004]

### **Section 6.<sup>2</sup> Application of 5 Per Cent Tax Rate**

A 5 per cent tax rate shall be applied to the following:

1) supplies of medicaments in accordance with a list approved by the Cabinet;

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- 2) the supply of medical devices and medical goods ( also assembly parts, reserve parts and accessories) in accordance with a list approved by the Cabinet;
- 3) supplies of veterinary medicaments in accordance with a list approved by the Cabinet;
- 4) supplies of specialised products intended for infants in accordance with a list approved by the Cabinet;
- 5) the supply of books and cartographic publications;
- 6) the following mass media or the subscription thereof:
  - a) newspapers, journals, bulletins and other periodicals, which are published not less than once every three months and the once-only edition of which exceeds 100 copies, except publications of an erotic and pornographic nature, as well as publications the direction of the contents and task is the publication of advertisements and commercial advertisements, and
  - b) subscriptions to commercial television and radio;
- 7) guest accommodation services in guest accommodation establishments (hotels, motels, guesthouses, houses utilised for rural tourism, camping sites and tourism establishments);
- 8) supplies of water in a centralised water supply system;
- 9) sewerage services;
- 10) collection, conveyance and disposal services for municipal waste;
- 11) funeral services;
- 12) entry fees to sports events;
- 13) entry fees to film shows, except for film shows of an erotic and pornographic nature; and
- 14) inland public transport services (carriage of passengers and luggage in city, district and long-distance busses, as well as in trams, trolley busses and inland trains).  
*[18 December 2003; 11 March 2004; 20 December 2004]*

## **Section 7. Application of 0 Per Cent Tax Rate**

- (1) A 0 per cent tax rate shall be applied to the following:
- 1) export of goods and the supply of such goods as are imported into the territory of the European Union from third countries or third territories and are not released for free circulation if the supply is performed in customs warehouses and free zones;
  - 2) services which are related to export of goods (also such export of goods for which the export procedure has been commenced in another Member State of the European Union), import and transit conveyances of goods and services in a free zone and customs warehouse, which are directly associated with goods that are imported into the territory of the European Union from third countries and third territories and are not released for free circulation (including transport, forwarding, storage of goods, loading, unloading, expert-examination and sorting services);
  - 3) services, the place of provision of which is not inland in accordance with this Law, except the services referred to in Section 6, Paragraph one of this Law;
  - 4) refuelling of ships with marine fuel and supply of goods intended for provision

thereof:

a) for ships, which are utilised for navigation in international waters and which convey passengers for a consideration or which are utilised for commercial activities or industrial activities,

b) for ships, which are utilised for rescue or assistance activities on the seas, and

c) for warships, for which the combined customs tariff 89.01 A sub-group has been specified and which leave the State and go to ports or anchorages in other Member States of the European Union or third countries, or third territories;

4<sup>1</sup>) port payments specified in the Law On Ports for services, which are provided to ships that ply international routes and ships that perform rescue or assistance work at sea;

4<sup>2</sup>) the supply, import (release for free circulation), conversion, repair, technical service, chartering and rent of the ships referred to in Paragraph one, Clause 4, Sub-clauses "a" and "b" of this Section;

4<sup>3</sup>) the supply, import (release for free circulation), conversion, repair, technical service, chartering and rent of such aircraft as are used by airlines, which operate for consideration on international routes, as well as the supply, rent, repair and technical service of equipment which is built-in in such aircraft or used therein;

4<sup>4</sup>) the supply of goods and services, which are associated with the repair of ships referred to in Paragraph one, Clause 4<sup>2</sup> of this Section or the repair of equipment which is built-in in such ships or used therein;

4<sup>5</sup>) the supply of goods and services, which are associated with the repair of aircraft referred to in Paragraph one, Clause 4<sup>3</sup> of this Section and the repair of equipment which is built-in in such aircraft or used therein;

4<sup>6</sup>) the refuelling of aircraft referred to in Paragraph one, Clause 4<sup>3</sup> of this Section with aviation fuel and supply of goods intended for provision thereof;

4<sup>7</sup>) other services, which are not specified in Paragraph one, Clause 4<sup>2</sup> of this Section and which are provided in order to ensure the direct needs of the ships referred to in Paragraph one, Clause 4<sup>2</sup> of this Section or the cargo thereof;

4<sup>8</sup>) other services, which are not specified in Paragraph one, Clause 4<sup>3</sup> of this Section and which are provided in order to ensure the direct needs of the aircraft referred to in Paragraph one, Clause 4<sup>3</sup> of this Section or the cargo thereof;

4<sup>9</sup>) intermediary services, which are provided in selling tickets for the carriage of passengers on international routes by ship or aircraft;

5) services related to tourism (travel) in accordance with Section 13 of this Law;

6) supplies of goods and services, which in accordance with procedures prescribed by the Cabinet are provided to:

a) on the basis of the principle of parity – third country diplomatic and consular missions in the Republic of Latvia, their diplomatic and consular agents, administrative technical staff, as well as to the family members of the persons referred to,

b) on the basis of the principle of parity – third country representation offices of international organisations, and their employees who in the territory of the Republic of Latvia enjoy diplomatic status,

- c) diplomatic and consular missions of the Member States of the European Union in the Republic of Latvia, their diplomatic and consular agents, administrative technical staff, as well as to the family members of the persons referred to,
- d) European Union representation offices of international organisations, and their employees who in the territory of the Republic of Latvia enjoy diplomatic status,
- e) European community institutions in accordance with the Protocol on the privileges and immunities of the European Communities, and
- f) North Atlantic Treaty Organisation (NATO), the armed forces of its member states and the persons included therein;
- 7) supplies of goods and services which have been provided in return for foreign financial assistance funds – in accordance with procedures prescribed by the Cabinet;
- 8) processing services, which are provided to a foreign person not registered in the European Union, by a person who has imported inland goods in accordance with the customs procedure “importation for processing” specified in the regulatory enactments regarding customs matters, and has received a permit from the customs authority to process these goods and export compensatory products from the territory of the European Union;
- 9) supply of goods performed by tax-free trading shops to natural persons, who depart from inland to third countries or third territories;
- 10) [20 December 2004]
- 11) carriage of international passengers, also carriage of passengers to the Member States of the European Union if the passenger crosses the border of the Republic of Latvia by train, bus, aeroplane or ship, as well as the carriage of the luggage of such passengers, which the passenger is taking with him or her, and the carriage of a means of transport with which he or she is travelling; and
- 12) import of electricity or natural gas if the natural gas is supplied utilising transfer or distribution systems.
- (2) [23 November 2000]
- (3) [13 November 1997]
- (4) The tax which natural persons registered in third countries or third territories have paid regarding goods acquired in the Republic of Latvia, the value of which (without tax) exceeds 25 lats and which is exported from the territory of the European Union shall be repaid, in accordance with procedures prescribed by the Cabinet, by the person registered for economic activities in the Republic of Latvia which has received a license for refunding tax to natural persons registered in third countries or third territories. The procedures for the issuance of licenses, the amount (rate) of State fee for the licence and the procedures for payment thereof, as well as the procedures by which licensed persons and shops shall account between themselves and with the State budget shall be determined by the Cabinet.
- (4<sup>1</sup>) [31 December 2003]
- (5) If taxable persons who have supplied goods or provided services according to Paragraph one of this Section are unable to present documents which confirm export or

documents that certify the application of the 0 per cent tax rate, they shall pay tax for the goods supplied or services provided in conformity with the tax rate prescribed in Paragraph one of Section 5.

(6) If a taxable person has received a payment in advance for a transaction, which in accordance with this Section is taxable with a 0 per cent tax rate, and if within a period of six months from the day of the receipt of the advance payment the good has not been dispatched or the provision of the service has not commenced, from the referred to advance payment shall be calculated tax in conformity with the rate which would apply for such transaction inland.

*[25 April 1996; 13 November 1997; 15 April 1999; 25 November 1999; 23 November 2000; 22 November 2001; 6 November 2003; 26 February 2004; 20 December 2004]*

### **Chapter III**

#### **Procedures for Calculation and Payment of Tax**

#### **Section 8. Value Added Tax Invoice**

(1) Supply of goods has taken place if the goods have been dispatched or consideration for the supply of the goods has been received prior to the dispatch of the goods.

(1<sup>1</sup>) Supply of goods in the territory of the European Union has taken place if the goods are received. Supply of goods in the territory of the European Union shall have been deemed to take place also if payment (consideration) for the goods has been performed in advance.

(2) Provision of a service has taken place if the service has been provided to a client or a consideration for the service has been received prior to provision of the service.

(2<sup>1</sup>) Receipt of a service has taken place if the service has been received or consideration for the service has been performed in advance.

(3) Home consumption has taken place if the goods have been forwarded or otherwise become available, or the services have been provided, to the recipient. In such case, it is the obligation of the taxable person to write a value added tax invoice and carry out the recording of the home consumption in their accounts.

(4) A taxable person shall write, in accordance with this Section, a tax invoice regarding any taxable supply of goods or services not later than within a period of 15 days from the day of the transaction if it is not specified otherwise in this Section. A taxable person shall write a tax invoice regarding supply of goods or services to a non-taxable person in conformity with Paragraph 5<sup>1</sup> or six of this Section on the basis of his or her request.

(4<sup>1</sup>) A taxable person who performs the supply of goods in the territory of the European Union shall not write out a tax invoice for the goods supplied. The necessary calculations for the calculation of tax and deduction of input value added tax for the taxable person shall be performed on the basis the tax invoice written by the supplier of the goods.

(4<sup>2</sup>) A taxable person in receiving the services referred to in Section 31 of this Law from a taxable person of another Member State and the services referred to in Section 4, Paragraph seven of this Law from a person not registered in the territory of the European Union, shall not write out a tax invoice for the services received. The necessary

calculations for the calculation of tax and deduction of input value added tax for the taxable person shall be performed on the basis the tax invoice written by the provider of the services.

(4<sup>3</sup>) If the transaction is performed without interruption over a long period of time, the tax invoice shall be written for a time period, which may not be longer than six months.

(4<sup>4</sup>) A taxable person may write a tax invoice for goods transport services in territory of the European Union or for goods transport services, which are directly associated with the export of goods, later than 15 days after the provision of the service, but not later than within a period of 90 days according the procedures specified by the Cabinet.

(5) Only a taxable person may issue a tax invoice. Any amount of value added tax which has been paid in accordance with a tax invoice issued by a person who does not have the right to issue such an invoice, shall be paid into the State budget by the person who has issued the invoice. The Cabinet shall determine transactions for which non-taxable persons may issue a tax invoice.

(5<sup>1</sup>) A tax invoice shall be deemed to be a document that includes the following information:

- 1) the date when the invoice was written;
- 2) invoice number
- 3) the name (natural person – given name, surname, personal identity number) and legal address (natural person – declared place of residence) of the supplier of goods or provider of services;
- 4) the registration number of the supplier of goods or provider of services in the State Revenue Service Register of Value Added Tax Taxable Persons;
- 5) the name (natural person – given name, surname, personal identity number) and legal address (natural person – declared place of residence) of the receiver of the goods or services;
- 6) the registration number of the receiver of the goods or services in the State Revenue Service Register of Value Added Tax Taxable Persons or other Member State register of value added tax taxable persons if such exists;
- 7) the date of the supply of the goods or date of the provision of the service if such differs from the date of the writing of the invoice, or the date when a consideration has been received in advance if such date is known and differs from the date of the writing of the invoice;
- 8) the name, amount (volume) and unit of measurement of the goods supplied or services provided;
- 9) the price (value of one unit without tax) of the goods supplied or services provided;
- 10) discounts applied if they are not deducted from the value of one unit;
- 11) tax rate applied;
- 12) calculated amount of tax;
- 13) the total of the transaction without tax;
- 14) if a tax rate of 0 per cent is applied to the goods supplied or services provided or if the receiver of the goods or services is responsible for the payment of the tax into the budget – a reference to the Section of the Law in accordance with which the tax is

applied;

15) if new means of transport are supplied – an indication of this;

16) if to the goods supplied or services provided is applied the special provisions provided for in this Law (Section 2, Paragraph 15; Sections 13.<sup>1</sup>, 13.<sup>2</sup>, 13.<sup>3</sup>, 32 and 34) – a reference to the Section of the Law in accordance with which the tax is applied; and

17) if an authorised person is responsible for the payment of the tax – the registration number of the authorised person as a taxable person in the Register of Value Added Tax Taxable Persons, his or her name (natural person – given name, surname, personal identity number) and legal address (natural person – declared place of residence).

(6) For inland transactions, the value of which without tax is less than 100 lats, as a tax invoice may be utilised a document which includes the following information:

1) the designation of the supplier of goods or provider of services (for a natural person – given name and surname), the legal address (for a natural person – the declared place of residence), as well as with the value added tax taxable persons registration number issued by the State Revenue Service;

2) the designation of the recipient of goods or services (for a natural person – given name and surname), the legal address (for a natural person – the declared place of residence), as well as with the value added tax taxable persons registration number issued by the State Revenue Service;

3) the designation and the amount of the goods or the type and the volume of the services;

4) the price and the value of the goods or the consideration for the services provided;

5) the tax rate and the calculated tax; and

6) the date of the writing of the tax invoice.

(7) A cash receipt received from the taxable person may also be used as a tax invoice, if the information referred to in Paragraph six of this Section is provided therein. A cash receipt which does not contain all of the information referred to in Paragraph six of this Section shall be accompanied by a corroborative document upon which is indicated the date and number of the cash receipt and the prerequisites referred to in Paragraph six of this Section if it is not specified otherwise in this Section.

(8) If a cash receipt has been issued for a transaction the value of which, exclusive of value added tax, is less than 20 lats and the receipt does not contain the information referred to in Paragraph six, Clause 2 of this Section, the cash receipt may be used as a tax invoice if the name of the recipient of goods (service) (for a natural person – given name and surname), legal address (for a natural person – the declared place of residence), and the value added tax taxable persons registration number issued by the State Revenue Service is set out therein. The supplier (service provider) shall make an annotation on the front or the reverse side of the receipt and confirm it with their signature and seal.

(8<sup>1</sup>) In transactions with persons from other Member States of the European Union, a tax invoice shall be deemed to be a document that includes the information referred to in Paragraph 5<sup>1</sup> of this Section.

*[13 November 1997; 15 April 1999; 22 November 2001; 11 March 2004; 20 December*

2004]

## **Section 9. Taxation period**

- (1) The taxation period shall be one calendar month.
- (2) If the amount of taxable transactions performed by a taxable person during the pre-assessment year does not exceed 10 000 lats, the time period for the submission of a tax declaration and the taxation period following the submission by the taxable person may be three months or six months.
- (3) Pursuant to an application by a taxable person the State Revenue Service may, in connection with the seasonal character of the economic activity, determine another taxation period.
- (4) The taxation period for supplied sugar beets shall be determined in conformity with the Sugar Sector Law.
- (4<sup>1</sup>) The taxation period for supply of cereals, legumes and rapeseed (hereinafter – cereals) which have been supplied to agricultural product processing undertakings by the producers of such cereals shall be specified as that period in which the cereal producers receive consideration for the cereals supplied, but it may not exceed six months from the month of supply of cereals and writing of invoices.
- (5) The total of the taxation periods of a calendar year shall constitute the assessment year.

*[25 April 1996; 25 November 1999; 22 November 2001; 20 December 2004]*

## **Section 10. Deduction of Input Value Added Tax and Calculation of Tax Payable into the Budget**

(1) Only a taxable person registered with the State Revenue Service has, in a tax declaration, the right to deduct as input value added tax, from the amount of tax payable into the budget, the following amounts:

1) the tax amounts indicated in tax invoices received from other taxable persons regarding goods and services for ensuring their own taxable transactions, as well as the ensuring of such transactions conducted in foreign states as would have had tax imposed if they had been conducted inland.

2) the paid amount of tax for goods imported inland for the carrying out of their own taxable transactions in accordance with documents which confirm the payment of tax for the importation of the goods, and in which the taxable person is shown as the purchaser or the importer; and

3) the calculated amount of tax which the taxable person shall pay during the taxation period as the recipient of services for ensuring their own taxable transactions, as well as the ensuring of such transactions conducted in foreign states as would have had tax imposed if they had been conducted inland;

4) value added tax indicated in the customs declaration, but not paid regarding imported fixed assets which are intended to be fully or partially utilised to ensure taxable transactions;

5) [11 March 2004]

6) tax amounts which are indicated from the tax receipts received by other taxable persons regarding goods supplied and services received to ensure such services as are mentioned in:

a) Section 6, Paragraph one, Clauses 13 and 17 of this Law if the recipient of the service is a person not registered in the European Union, and

b) Section 6, Paragraph one, Clause 13 of this Law if the transactions performed are directly associated with the export of goods; and

7) the calculated tax amount regarding goods supplied or services received in the territory of the European Union to ensure one's own taxable transactions.

(1<sup>1</sup>) Only a non-taxable person, in respect of the supply of a new means of transport to a person in another Member State, shall have the right to an input value added tax deduction.

(1<sup>2</sup>) The amounts of tax indicated in tax invoices for goods or services received shall be deducted after the receipt of the goods or services and tax invoice or after the payment in advance of the amount of tax indicated in the tax invoice.

(1<sup>3</sup>) The tax paid according to the procedures referred to in Section 12, Paragraph 1<sup>8</sup> of this Law shall be deducted as input tax in the taxation period in which the goods were dispatched or the provision of services commenced.

(2) [11 March 2004]

(3) Documents, which certify the payment of tax for the importation of goods, shall be utilised in a customs declaration or other goods accompanying document prescribed by regulatory enactments, with an annotation by the customs authority that the value added tax has been paid, and a customs payment receipt or a payment instrument of a bank or other institution (post, telegraph) which certifies that the tax has been paid.

(4) In transactions with immovable property:

1) the taxable person shall deduct the input value added tax for the unused immovable property acquired, as well as for the building, reconstruction, renovation or restoration of the immovable property. If the immovable property is intended to be used only for the carrying out of taxable transactions, then the input value added tax shall be deducted in full. If the immovable property is intended to be used for the carrying out of both taxable transactions and non-taxable transactions, the amount of input value added tax to be deducted shall be determined on the basis of the intended immovable property utilisation proportions in accordance with Paragraph ten of this Section; and

2) unused immovable property acquired by the taxable person, as well as built, reconstructed, renovated or restored immovable property shall be registered with the State Revenue Service, by the submission a tax declaration for the taxation period in which it was acquired or accepted for service. In registering immovable property, the taxable person shall indicate the total amount of tax which is indicated in the tax invoices received in respect of the acquisition, building, reconstruction, renovation or restoration of immovable property, as well as the amount of deducted input value added tax, taking into account the taxable and non-taxable transaction immovable property utilisation proportion;

3) the taxable person commencing with the assessment year in which the property

is acquired or accepted for service, and in the next 10 years, when submitting the assessment year declaration shall inform the State Revenue Service in writing regarding the utilisation of the immovable property in taxable and non-taxable transactions in the relevant assessment year;

4) the taxable person shall perform deductible input value added tax corrections for each assessment year, calculating the difference between one tenth of the deducted input value added tax and the deductible input value added tax in the relevant assessment year, taking into account the taxable and non-taxable transaction immovable property utilisation proportion. This difference shall be paid by the taxable person into the budget or shall be received back from the budget;

5) an input value added tax correction does not have to be performed if in the assessment year the proportions referred to in Clause 2 of this Paragraph have not changed.

6) if the immovable property (or a part of it) is sold within a period of 10 years after its acquisition or acceptance for service, the taxable person shall refund to the budget an amount of input value added tax which shall be calculated by multiplying one tenth of the deducted input value added tax with the number of years which are left to the 10 years referred to in Clause 3 of this Paragraph. This refundable amount of input value added tax shall be included the value of the immovable property, and the purchaser does not have the right to deduct it as an input value added tax; and

7) if the immovable property within a period of 10 years after its registration with the State Revenue Service has been ruined or destroyed as a result of a natural disaster or in some other forced way and this has been proven by documents, the performance of input value added tax corrections shall terminate in the assessment year when in respect of the referred to property documents attesting to the loss have been drawn up.

(4<sup>1</sup>) In transactions with fixed assets (except for immovable property), the acquisition or manufacturing value (without tax) of which reaches or exceeds 50 000 lats:

1) the taxable person who has acquired or manufactured the fixed asset and for such acquisition or manufacture has deducted input value added tax, taking into account the utilisation proportions for taxable and non-taxable transactions of the fixed asset, shall perform deducted input value added tax corrections within a period of five years commencing with the taxation year when the fixed asset was acquired or manufactured;

2) if the utilisation proportion of the fixed asset in the relevant taxation year has changed, the taxable person shall, in submitting his or her tax declaration for the taxation year, perform the input value added tax corrections, calculating the difference between one fifth of the deducted input value added tax and the input value added tax to be deducted in the relevant taxation year, taking into account the utilisation proportion of the fixed asset for taxable and non-taxable transactions;

3) the input value added tax correction referred to in Clause 2 of this Paragraph need not be performed if the utilisation proportion of the fixed asset in the taxation year has not changed; and

4) the taxable person shall ensure a separate accounting of separately deducted input value added tax for each fixed asset, indicating in each taxation year the input value added tax corrections performed.

(5) [23 November 2000]

(6) [22 November 2001]

(7) 40 per cent of the tax paid for goods for representation purposes and for services received with respect to the preparation of public conferences, receptions and meals, as well as for the manufacture of representative objects for taxable persons, shall not be deducted as input value added tax from the amount of tax payable into the budget.

(8) [23 November 2000]

(9) If a taxable person carries out both taxable and non-taxable transactions and if separate accounting has been ensured in respect of such goods and services as are utilised for the carrying out of taxable or non-taxable transactions, the input value added tax which has been paid may be deducted from the tax amount payable into the budget, without applying the proportions referred to in Paragraph ten of this Section.

(10) If the goods acquired and services received are utilised for the carrying out of both taxable and non-taxable transactions, and if separate accounting for such goods and services has not been ensured, the part of input value added tax to be deducted during the taxation period shall be calculated on the basis of the following proportions:

numerator – the value of the taxable transaction without tax (including the value of transactions that are taxable with a 0 per cent tax rate);

denominator – the total value of the transactions carried out without tax (the sum of value of the transactions included in the numerator and of the non-taxable transactions according to Section 6, Paragraph one of this Law).

(11) If the value of taxable transactions carried out by a taxable person is less than five per cent of the total transaction value during the pre-assessment year, such a person shall be permitted to carry out, for the purposes of value added tax, only the registration of taxable transactions and to deduct input value added tax which has been paid for the goods and the services received for the carrying out of taxable transactions pursuant to Paragraph nine of this Section.

(11<sup>1</sup>) If the taxable person performs both taxable and non-taxable transactions and the value of the taxable transactions performed in the taxation period is greater than 95 per cent of the total value of transactions, such persons have the right to deduct input value added tax for the acquired goods and received services without applying the proportion specified in Paragraph ten of this Section.

(11<sup>2</sup>) If the taxable person within the period of the taxation year performs one non-taxable transaction, which is not associated with the taxable person's economic activities, such taxable person has the right to not include the non-taxable transaction value in the input value added tax proportion calculation.

(12) In the cost price of goods supplied or services provided shall be included tax amounts which, in accordance with this Section, are not to be deducted from the amount of tax payable into the budget as input value added tax and which:

- 1) are indicated in tax invoices, which are received from other taxable persons;
- 2) are paid into the State budget for goods released for free circulation (imported);
- 3) are calculated for the acquisition of goods or received services in the territory of the European Union, based upon the tax invoice written by a taxable person from another Member State of the European Union; and

4) are paid into the State budget in accordance with Section 12, Paragraph 1<sup>1</sup> of this Law.

(13) Taxable persons shall ensure that tax amounts calculated and paid are recorded in accounts.

(14) [1 January 2002]

(15) [1 January 2002]

(16) If a taxable person systematically and long-term supplies goods or provides services for a price, which is lower than an economically substantiated (justified) price, the taxable person at the end of the taxation year, prior to the submission of the yearly declaration, shall perform a recalculation, correct the amount input tax to be deducted and shall pay tax into the budget from the difference between the acquired goods or services received price or cost price and the supplied goods or services provided price, except in the case where a price discount has been applied. The methods on the basis of which a tax calculation shall be valued, or the supplied goods or services provided price is lower than an economically substantiated (justified) price, shall be determined by the Cabinet.

*[25 April 1996; 13 November 1997; 15 April 1999; 23 November 2000; 22 November 2001; 6 November 2003; 11 March 2004; 20 December 2004]*

## **Section 11. Tax Declarations**

(1) A taxable person shall submit to the State Revenue Service a tax declaration with a tax calculation for an taxation period within a period of 15 days after the end of the taxation period if it is not specified otherwise in this Law. Taxable persons who pay value added tax centrally into the budget for several enterprises (branches, departments), as well as farms, pursuant to harmonisation with the State Revenue Service, shall submit a tax declaration for an taxation period not later than 25 days after the taxation period.

(2) If a tax declaration is dispatched to the State Revenue Service by post, the day of submission shall be the day when the tax declaration was delivered to the post office (postmark).

(3) A tax declaration shall also be submitted to the State Revenue Service in cases, where the taxable person has not carried out taxable transactions during the taxation period.

(4) A taxable person who has not submitted a tax declaration during the time period specified in this Section, or has not submitted it at all, shall not be released from tax payments into the budget.

(5) The State Revenue Service may request, if it considers it necessary, that a taxable person also submit a tax declaration at other times, but not more frequently than once in a quarter.

(5<sup>1</sup>) Together with the tax declaration a taxable person shall submit to the State Revenue Service a statement regarding the amounts of input value added tax which have been included in the tax declaration for the relevant taxation period.

(6) A taxable person shall submit a tax declaration for an assessment year to the State Revenue Service by 1 May of the following year. A tax declaration for an assessment year shall also be submitted to the State Revenue Service, in cases where the taxable person has operated for a time period less than a year.

(6<sup>1</sup>) A taxable person who during the period of one year has performed both taxable and non-taxable transactions, prior to the submission of the annual declaration shall recalculate the proportions (in conformity with Section 10, Paragraphs nine, ten and eleven of this Law) in total for the year and, if necessary, correct the calculated tax and the amount of input value added tax to be deducted, as well as pay the tax into the budget by 1 May of the post-taxation year.

(7) The Cabinet shall approve the form of a tax declaration to be submitted for a taxation period.

(8) Taxable persons who supply goods to taxable persons from other Member States shall submit a statement to the State Revenue Service regarding the supply of goods in the territory of the European Union (hereinafter – statement). The statement shall be submitted each calendar quarter by the fifteenth date of the month following the quarter. Taxable persons who pay taxes into the budget centrally for several undertakings (branches, departments), as well as farms after co-ordination with the State Revenue Service shall submit a statement for the taxation period not later than by the twenty-fifth date of the month following the quarter.

*[13 November 1997; 15 April 1999; 23 November 2000; 6 November 2003; 11 March 2004]*

## **Section 12. Procedures for Paying Tax**

(1) A taxable person shall pay the tax into the State budget for a taxation period within a period of 15 days from the end of the taxation period. Taxable persons who pay value added tax centrally into the budget for several enterprises (branches, departments), as well as farms, pursuant to harmonisation with the State Revenue Service, shall pay the tax for a taxation period within a period of 25 days from the end of the taxation period.

(1<sup>1</sup>) For the services referred to in Section 4, Paragraph seven of this Law, which are received from any person from another Member State or from persons not registered in the European Union, the tax shall be calculated and the tax paid into the budget by the receiver of the services if such is a taxable person, a non-taxable legal person or non-taxable natural person who performs economic activities.

(1<sup>2</sup>) The non-taxable legal person or non-taxable natural person who performs economic activities referred to in Paragraph 1<sup>1</sup> of this Section shall pay into the State budget by the fifteenth date of the next calendar month and shall inform the State Revenue Service by submitting a notice regarding the receipt of such services and payment of taxes. The Cabinet shall approve the sample of the notice form.

(1<sup>3</sup>) The conditions of Paragraph 1<sup>1</sup> of this Section shall not apply to State or local government institutions if they receive such services to ensure their own functions as specified by regulatory enactments.

(1<sup>4</sup>) A taxable person who applies a deposit system for renewable packaging in accordance with regulatory enactments, in submitting a tax declaration regarding the post-tax year in January, shall perform a goods taxable value correction regarding the previous taxation year's value of deposit packing not received and from the calculated tax amount of this value make a payment into the State budget.

(1<sup>5</sup>) If a transaction is performed uninterrupted over a long period, then the tax payment into the State budget shall be in the taxation period when the consideration for such transaction is received, but not less frequently than once during every six-month period.

(1<sup>6</sup>) Taxes for supplied goods or services provided shall be paid into the State budget for such taxation period as the goods were dispatched or the services provided and the tax invoice was written or an advance payment is paid in accordance with the invoice.

(1<sup>7</sup>) Taxes for the acquisition of goods in the territory of the European Union shall be paid when the goods are received and a tax invoice is received or an advance payment received with the invoice, however, not later than the fifteenth day after the taxation period in which the acquisition of goods in the territory of the European Union has taken place.

(1<sup>8</sup>) Taxes, which have been calculated for an advance payment in accordance with Section 7, Paragraph six of this Law shall be included in the six-month period (from the day of receipt of the advance payment) following monthly tax declaration.

(1<sup>9</sup>) Taxes for services received shall be paid in the taxation period when the service was received and a tax invoice was received or payment for the service performed in advance.

(2) If goods are imported inland, the tax shall be paid by any person releasing the goods for free circulation. The tax for the import of goods shall become collectable at the moment when customs duty becomes collectable.

(2<sup>1</sup>) In releasing fixed assets for free circulation, the tax for its import in accordance with Paragraph two of this Section need not be paid into the budget, but indicated in the tax declaration as a calculated tax if:

1) the taxable person imports fixed assets, which are intended fully or partially for ensuring taxable transaction utilisation;

2) the value of the fixed assets (without tax) reaches or exceeds 500 lats;

3) the taxable person does not have a tax debt for the previous taxation periods;

and

4) the fixed asset is also a passenger car, which is imported by the taxable person if the basic activity of the such person is leasing or hire purchase (leasing) transactions with passenger cars, the provision of taxi services and vehicle driver training.

(2<sup>2</sup>) [11 March 2004]

(2<sup>3</sup>) If in importing goods inland from third countries or third territories, a customs guarantee is applied for these goods in accordance with the Community Customs Code, then the person who is responsible for the payment of the customs debt shall submit a security deposit for the possible tax debt. The Cabinet shall determine the amount of the security deposit, and the procedures for its submission, application and reduction.

(3) [6 November 2003]

(4) [23 November 2000]

(5) [23 November 2000]

(6) [11 March 2004]

(7) [23 November 2000]

(8) [20 December 2004]

(9) [20 December 2004]

(9<sup>1</sup>) If a person from another Member State of the European Union in accordance with

the procedures referred to in Section 26, Paragraph five of this Law or a non-registered person in the territory of the European Union in accordance with Section 3, Paragraph ten of this Law is not registered in the State Revenue Service Register of Value Added Tax Taxable Persons, the taxes for the acquisition of goods in territory of the European Union and for services received shall be calculated and paid by the recipient (taxable person) of the goods or services, submitting a tax declaration for the taxation period in which the goods or services were received.

(10) If a tax declaration for an taxation period has been submitted in time, has been drawn up in due form, and it is set out therein that the input value added tax for such period exceeds the calculated tax for the performed taxable transactions, the difference between the tax amounts shall be applied to the post-taxation period.

(10<sup>1</sup>) Over-paid taxes (the difference between the calculated tax and the deductible input value added tax) on the basis of a request from the taxable person may be directed to the performance of another tax, fee or mandatory payment, except for customs duties, excise duties for petroleum products and excise duties for alcoholic beverages, taking into account the following order:

- 1) State mandatory social insurance payments;
- 2) taxes, fees and other mandatory payments into the State budget; and
- 3) taxes, fees and other mandatory payments into local government budgets.

(11) The State Revenue Service shall refund an over-payment (the difference between the calculated tax and the deductible input value added tax) to a taxable person within 30 days from the receipt of a justified application and documents attesting to transactions.

(11<sup>1</sup>) The State Revenue Service has the right to delay the refund of the over-paid tax amount, informing the taxpayer in writing regarding this, in the following cases:

1) if in the time period specified in Paragraph 11 of this Section, a decision has been taken regarding the commencement of control (examinations, audits) of the taxes to be paid by the taxable person, regarding those transactions for the examination of which additional information is necessary – up to the day when the tax administration has evaluated the transactions and taken a decision regarding the justification for the application;

2) if the person who is deemed to be a related person to the taxable person within the meaning of Section 1, Paragraph 18 of the Law On Taxes and Fees, has a value added tax debt to the State budget – up to the day when the related person has paid the referred to tax; and

3) if the person cannot prove documentarily the justification for the application of the 0 per cent tax rate – until the moment when documents are received verifying export or documents which confirm the application of the 0 per cent tax rate.

(12) The State Revenue Service may refuse to refund a tax over-payment, referred to in Paragraph eleven of this Section, to a taxable person in the following cases:

1) the taxable person is indebted for tax or other compulsory payments to the State budget. In such cases, the overpaid sum shall be applied to cover the relevant taxes or other compulsory payments. The State Revenue Service may not refuse to pay the over-payment referred to in cases where time for payment of the tax debt is extended by the Ministry of Finance or the State Revenue Service pursuant to procedures specified in

the Law On Taxes and Fees, and the obligations are being duly performed;

2) [11 March 2004]

3) [11 March 2004]; or

4) a person requests, during the taxation period, refund of the overpaid tax amount, but the value of the transactions to which a 0 per cent tax rate is applicable pursuant to this Law does not exceed 50 per cent of the total value of the taxable transactions. At the end of the assessment year the overpaid tax amount shall be fully repaid from the State budget in conformity with the annual tax declaration. The conditions of this Section shall not apply to the tax which has been paid for the goods acquired or imported and for services supplied in order to implement projects included in the State Investment Program.

(12<sup>1</sup>) [11 March 2004]

(13) Tax shall be recovered pursuant to the Law On Taxes and Fees.

(14) If a person who is not registered with the State Revenue Service as a taxable person has collected value added tax for the goods acquired and services supplied, the tax amount collected shall be paid fully into the State budget. Such persons shall not have the right to reduce the tax payable into the budget by the amounts of input value added tax paid.

*[13 November 1997; 15 April 1999; 25 November 1999; 23 November 2000; 22 November 2001; 20 June 2003; 6 November 2003; 11 March 2004; 20 December 2004]*

### **Section 12.<sup>1</sup> Refund of Value Added Tax to Foreign Legal Persons – Providers of International Road Transport Services**

[1 January 2003]

*[23 November 2000; 1 January 2003]*

### **Section 12.<sup>2</sup> Refund of Value Added Tax to Taxable Persons from other Member States and Taxable Persons Registered in Third Countries or Third Territories**

(1) Taxable persons from other Member States in respect of value added taxes paid for goods acquired inland, services received and for import of goods, shall be repaid if the relevant person:

1) is registered for entrepreneurial activity in the territory of the European Union; and

2) does not perform entrepreneurial activities in the Republic of Latvia which are registrable in accordance with regulatory enactments, which are in force.

(2) Persons who are not registered in the territory of the European Union shall in respect of taxes paid for goods acquired and services received in the Republic of Latvia, be repaid paid valued added tax for goods acquired inland and services received on the basis of the parity principle, if the relevant legal person:

1) is not registered in the State Revenue Service Register of Value Added Tax Taxable Persons;

2) has registered the entrepreneurial activity and is registered in their country of

domicile as a value added tax taxable person in their country of domicile outside the territory of the European Union – the state in which value added tax is applied (also an identical or essentially similar tax); and

3) does not perform entrepreneurial activities in the Republic of Latvia which are registrable in accordance with regulatory enactments.

(3) The Cabinet, taking into account the requirements of Paragraphs one and two of this Section, shall:

1) determine the procedures for the refund of tax and the time periods and the minimum amount of tax to be repaid;

2) determine the documents to be submitted to the State Revenue Service and the time periods for their submission; and

3) approve the form of the submission for the refund of the tax.

*[22 November 2001; 11 March 2004; 20 December 2004]*

## **Chapter IV Special Provisions**

### **Section 13. Application of the Tax to the Services Provided by Tourism (Travel) Firms and Agencies**

(1) The tax shall be applied to the services provided by tourism (travel) firms and agencies if a tourism (travel) firm or agency acts in its own name and makes use of supplies of goods and services provided by other persons for provision of tourism services.

(2) All activities performed by an inland tourism (travel) firm or agency with respect to a journey shall be treated as a single service provided by the firm or the agency to the traveller. Such services shall be taxable.

(3) The taxable value regarding services provided by tourism (travel) firms or agencies shall be the difference between the total amount (without tax) paid by the recipient of the service (the traveller), and the actual costs for the supply of goods and services which are provided to the tourism (travel) firms or agencies by other persons.

(4) The tax calculated by a tourism (travel) firm for the services it has provided itself (including development of travel packages and publication of advertising brochures) shall be included in the total value of a travel package and be collected from the recipient of the service. In calculating the amount of the tax payable into the budget, the tax paid inland in the course of providing their own services (including lease of premises, telephone calls, electricity) shall be deducted as input value added tax.

(4<sup>1</sup>) A tourism (travel) firm or agency shall calculate the value of its own provided services and include it in the tax declaration for the taxation period in which the service was provided to the traveller and invoices have been received from other persons regarding the actual value of the services provided, but not later than the next taxation period after the supply of services to the traveller.

(5) The tax for other tourism-related (travel-related) services (including services of hotels, transportation, public eating places) which are actually provided inland by other

taxable persons shall be included in the total value of tourism vouchers and be collected from the recipients of the services. The amount of the tax collected for such services shall be fully transferred by the tourism (travel) firm to the actual provider of the services. A tourism (travel) firm may not deduct such amount as input value added tax.

(6) [1 January 2003]

(7) If services provided by tourism (travel) firms or agencies are provided both in the territory of the European Union and outside it, the 0 per cent tax rate shall be applied only to that part of the services which is related to transactions outside the territory of the European Union.

[13 November 1997; 23 November 2000; 6 November 2003; 11 March 2004]

### **Section 13.<sup>1</sup> Application of the Tax to Farms**

(1) Natural persons and legal persons which produce agricultural products and are not registered with the State Revenue Service as taxable persons (hereinafter – farms) shall, upon delivering their self-produced unprocessed agricultural produce to taxable persons – agricultural produce processing undertakings – also receive compensation from such enterprises in the amount of 12 per cent of the value of the production supplied, for the tax which has been paid upon purchasing goods and receiving services for the purposes of producing agricultural produce (hereinafter – compensation).

(2) Compensation may be also paid by the following taxable persons if they comply with the conditions for agricultural produce processing undertakings prescribed in Paragraphs seven and eight of this Section:

- 1) agricultural and fishery co-operative societies;
- 2) stock companies for agricultural production; and
- 3) the Rural Support Service, which acquires from farms unprocessed agricultural products produced by the farm themselves in establishing the intervention stockpiles.

(3) Compensation may also be received by the co-operative societies referred to in Paragraph two, Clause 1 of this Section, if they conform to both of the conditions set out in Clauses 1 and 2 of this Paragraph:

- 1) they are not taxable persons, and
- 2) all of the compensation received is paid to farms.

(4) In order to receive compensation, a farm shall submit to the particular agricultural produce processing enterprise a certificate issued by the State Revenue Service certifying that the farm is not a taxable person and has the right to receive compensation.

(5) In order to receive a certificate mentioned in Paragraph four of this Section, the relevant farm shall submit to the State Revenue Service a certificate of registration of the farm or a confirmation by the relevant local government regarding rights of ownership or use of the land.

(6) The State Revenue Service shall issue a certificate for submission to a particular agricultural produce processing undertaking, referred to in Paragraph four of this Section, for a time period of one calendar (assessment) year. A repeat certificate shall be issued by the State Revenue Service to a farm for submission to an agricultural produce processing undertaking after information is received from the relevant processing undertaking

regarding the amount and value of the produce delivered by the particular farm during the pre-assessment year.

(7) An agricultural produce processing undertaking may reduce, in its tax declaration for the taxation period, the tax amount to be paid into the State budget by the amount of the compensation paid to farms. It is the duty of an agricultural produce processing undertaking to perform an inventory of farms and, at the end of the assessment year, to provide to the territorial institution of the State Revenue Service which has issued to a farm a certificate prescribed in Paragraph four of this Section, data regarding the produce delivered by the relevant farm, and the amount and value thereof.

(8) If an agricultural produce processing undertaking acquires produce from farms for a value (without compensation) which is above or below the price of supply at which analogous produce is acquired from taxable persons, it shall lose the right to relief set out in Paragraph seven of this Section.

(9) Compensation shall not be paid to farms for the delivery of acquired or processed agricultural produce.

*[13 November 1997; 23 November 2000; 11 March 2004]*

### **Section 13.<sup>2</sup> Application of the Tax to Transactions Related to Supply of Timber**

(1) The value added tax regarding supply of timber supply referred to in Paragraph two of this Section, if the supplier of timber and the recipient of timber are registered with the State Revenue Service as persons taxable with value added tax, shall be paid into the budget by the recipient of timber pursuant to the procedures prescribed by the Cabinet, in compliance with the following conditions:

1) transaction relationships between the supplier of timber and recipient of timber shall be set out in a unified form strict accounting document – a timber transport bill of lading-invoice, the procedures for use and completion of which, as well as the procedures for reciprocal settlement of accounts, shall be approved by the Cabinet;

2) a taxable person may deduct from the calculated tax payable into the budget, as input value added tax for the acquired timber, only the tax which is set out in the timber transport bill of lading-invoice, if all the timber acquired during the taxation period is intended for the carrying on of the person's taxable transactions. In such case value added tax is not required to be paid regarding the acquired timber; and

3) upon submitting, in accordance with the procedures prescribed by law, a value added tax declaration for an taxation period, the supplier of timber and the recipient of timber shall also submit an annex to the tax declaration. The Cabinet shall approve the form of the annex to the tax declaration, but the procedures for completing the form, as well as the manner in which the transactions with timber shall be presented in the accounts, shall be approved by the State Revenue Service.

4) [22 November 2001]

(2) The procedures set out in Paragraph one of this Section are applicable to transactions with the following kinds of timber:

1) cut and trimmed, cross-cut and not cross-cut, barked and unbarked, lengthways split and unsplit round timber consisting of one element without artificial joints, the

length of which exceeds one metre, but the top end diameter of which is at least three centimetres; and

2) sawn timber of any length, sawn, planed or unplanned, consisting of one element without artificial joints and which is thicker than six millimetres.

(3) Value added tax regarding services which are provided in transactions with the timber referred to in Paragraph two of this Section, as well as regarding the granting of felling rights shall be paid into the budget by the receiver of the services if the provider of the services is registered with the State Revenue Service as a value added tax taxable person. The Cabinet shall determine the types of services and the procedures for the application of the tax.

[15 April 1999; 23 November 2000; 22 November 2001]

### **Section 13.<sup>3</sup> Application of the Tax to Investment Gold**

(1) Investment gold within the meaning of this Law is:

1) gold bars, or a wafer of weights accepted by the bullion markets, of a purity equal to or greater than 995 thousandths, whether or not represented by securities; and

2) gold coins which are of a purity equal to or greater than 900 thousandths, are minted after 1800 are or have been legal tender in the country of origin, and are normally sold at a price which does not exceed the open market value of the gold contained in the coins by more than 80 %.

(2) Exempt from tax shall be:

1) the supply of investment gold inland and in the territory of the European Union;

2) the acquisition of gold in the territory of the European Union;

3) the import of investment gold; and

4) the services of intermediary agents, which are provided in transactions with investment gold.

(3) A taxable person has the right in accordance with Paragraph four of this Section to apply the tax for the supply of investment gold and the services of an intermediary agent if he or she for such a choice has informed the State Revenue Service before the performance of the transaction.

(4) A taxable person who normally:

1) supplies gold for industrial purposes may choose whether to apply the tax to the supply of investment gold referred to in Paragraph one, Clause 1 of this Section;

2) produces investment gold or transforms any gold into investment gold may choose whether to apply the tax to the supply of investment gold referred to in Paragraph one, Clause 1 of this Section; and

3) provides intermediary agent services, participating in the supply of investment gold referred to Clauses 1 and 2 of this Paragraph, may choose whether to apply the tax to intermediary agent services.

(5) A taxable person who performs the supply of investment gold released from taxes has the right in applying the procedures specified in Section 10 of this Law, in the tax declaration to deduct from the amount of tax to be paid into the budget, as input value

added tax, the tax which is calculated for:

1) the acquisition of investment gold from other taxable persons or other Member State taxable persons who have decided to apply the tax for the supply of investment gold;

2) the acquisition of gold from other taxable persons or other Member State taxable persons or import of gold if such gold shall be transformed into investment gold by the taxable person or an intermediary agent in the name of a taxable person; and

3) services which are received in order to change the form, weight or purity of the gold or investment gold.

(6) A taxable person who produces investment gold or transforms gold into investment gold, irrespective of whether such taxable person in accordance with Paragraph four of this Section has decided to apply the tax to the supply of investment gold or not, has the right in applying the procedures specified in Section 10 of this Law, in the tax declaration to deduct from the amount of tax to be paid into the budget, as input value added tax, for goods, which are acquired from other taxable persons or other Member State taxable persons, or imported goods and received services, which are associated with the production of investment gold.

(7) For a taxable person who performs transactions with investment gold, the documents which are associated with such transactions, shall be preserved for five years after the end of the calendar year in which the transaction was ended.

*[11 March 2004]*

#### **Section 14. Change of Ownership of Undertakings or Parts Thereof; Liquidation of Undertakings**

(1) If a State or a local government undertaking is privatised, and its new owner takes over all rights and obligations of the undertaking (of its independently functioning parts) in order to continue economic activity, the transaction shall not be taxable.

(2) If property is allocated within agricultural incorporated companies operating under articles of association which have been established pursuant to the Law On Privatisation of Agricultural Undertakings and Fishing Kolkhozes, in regard to capital shares as belong to the members of a privatised kolkhoz or to persons to whom the status of a member of a kolkhoz is applicable in accordance with Section 3 of the Law On Privatisation of Agricultural Undertakings and Fishing Kolkhozes, tax shall not be imposed on the property allocated.

(3) Where a State or other undertaking is leased out with redemption rights, tax shall not be imposed on lease payments for the utilisation of immovable property or on redemption payments, in regard to fixed assets as ensure entrepreneurial activity.

(4) If an undertaking which has not been a taxable person during the period of its operation is liquidated, tax is not required to be paid, upon the sale or transfer of the property of such enterprise.

(5) If an undertaking which has been a taxable person (or which should have been a taxable person) during the period of its operation is liquidated, then the tax for the goods supplied and for home consumption goods shall be calculated and paid pursuant to this

Law. In such cases, the liquidators or the liquidator of the undertaking shall submit a value added tax declaration to the State Revenue Service, in accordance with their location. The undertaking has the right to deduct, from the tax amount payable into the budget, the part of the turnover tax which has been paid up to 1 November 1993 for the residual value of fixed assets acquired. The provisions of this Paragraph do not apply to fixed assets which have been acquired without paying turnover tax.

(6) If a bailiff enforcing a decision of a court sells the property of an undertaking – a taxable person – tax shall be imposed on the market value or the auction price of the property.

(7) If the undertaking (company) which in its period of operation was registered as a taxable person, as a result of reorganisation is divided or a part of it is divested and new undertakings (companies) are established and are registered with the State Revenue Service as taxable persons 30 days after their registration in the Enterprise Register of the Republic of Latvia, tax for the divested property shall not be calculated.

(8) If the undertaking (company) which in its period of operation was registered as a taxable person, as a result of reorganisation is merged or the undertaking (company) – taxable person – is acquired by another undertaking (company) and the newly established undertaking (company) takes over all the rights and obligation of the merged or acquired undertaking (company), tax for the transferred property shall not be calculated.

*[13 November 1997; 23 November 2000]*

## **Chapter V Final Provisions**

*[11 March 2004]*

### **Section 15. Liability for Violations of this Law**

*[11 March 2004]*

*[13 November 1997; 25 November 1999; 23 November 2000; 6 November 2003; 11 March 2004]*

### **Section 16. Procedures for Reviewing Disputes**

*[11 March 2004]*

### **Section 17. Procedures for Application of the Provisions of this Law**

*[11 March 2004]*

*[15 April 1999; 11 March 2004]*

## **Chapter VI**

### **Application of Value Added Tax in the Territory of the European Union**

*[11 March 2004]*

### **Section 18. Taxable Transactions in the Territory of the European Union**

(1) Taxable transactions in the territory of the European Union are:

1) the transactions referred to in Section 2, Paragraph two of this Law performed within the scope of economic activities and acquisition of goods in the territory of the European Union;

2) acquisition of goods in the territory of the European Union shall also be the movement of a taxable person's goods from other Member States to inland to ensure the entrepreneurial activities of such person inland;

3) supply of goods in the territory of the European Union shall also be the movement of a taxable person's goods from other Member States to inland to ensure the entrepreneurial activities of such person in another Member State; and

4) the acquisition of new means of transport performed by a non-taxable person in the territory of the European Union.

(2) As goods acquired in territory of the European Union shall not be considered the receipt of such goods from customs warehouses or free zones for which the export procedure has been commenced in another Member State of the European Union.

(3) As the acquisition of goods shall not be considered the dispatch of goods of a taxable person of another Member State of the European Union for period, which may not be longer than 24 months. This norm shall not be applied if a person has brought in inland goods for the processing, treatment or repair of such goods for a period, which is not longer than 24 months, and after the receipt of the referred to services they are not taken out to the state from which such goods were brought in.

(4) As the acquisition of goods shall not be considered the dispatch of goods by a taxable person to another Member State of the European Union for period, which may not be longer than 24 months. In such case, the taxable person shall ensure a detailed accounting record for such goods in order that the taxation administration may follow the movements of the referred to goods.

*[11 March 2004; 20 December 2004]*

### **Section 19. Place of Supply of Goods in the Territory of the European Union**

(1) If the goods are dispatched or transported from one Member State of the European Union to another Member State of the European Union, the place of supply shall be that Member State of the European Union in which the dispatching or transporting of the goods commences.

(2) *[20 December 2004]*

(3) The place of supply of assembled or erected goods shall be that Member State of the European Union in which the goods are assembled or erected.

(4) *[20 December 2004]*

*[11 March 2004; 20 December 2004]*

### **Section 20. Place of Acquisition of Goods in the Territory of the European Union**

(1) If the goods are dispatched or transported from one Member State of the European Union to another Member State of the European Union, the place of acquisition shall be that Member State of the European Union in which the dispatching or transporting of the

goods ends.

(2) The place of acquisition of a new means of transport shall be that Member State of the European Union in which the means of transports shall be registered.

*[11 March 2004; 20 December 2004]*

### **Section 21. Place of Importation of Goods in the Territory of the European Union**

The place of importation of goods in the territory of the European Union shall be that Member State of the European Union in which the customs procedure – release of goods for free circulation is ended (concluded).

*[11 March 2004]*

### **Section 22. Place of Provision of Goods Transport Services in the Territory of the European Union**

(1) The place of provision of goods transport services in the territory of the European Union shall be that Member State of the European Union in which the transporting of the goods commenced if it is not specified otherwise in this Section.

(2) If the goods transport service in the territory of the European Union is provided to another Member State taxable person, the place of provision of goods transport services in the territory of the European Union shall be that Member State of the European Union in which the recipient of the service is registered as a taxable person.

(3) The place of provision of goods transport services in the territory of the European Union shall be inland if the taxable person receives the goods transport service in the territory of the European Union from another Member State taxable person.

(4) The place of provision of goods transport services in the territory of the European Union shall be inland if a taxable person provides goods transport services in the territory of the European Union to another taxable person irrespective of where the transport of goods commenced.

*[11 March 2004; 20 December 2004]*

### **Section 23. Place of Provision of Goods Transport Associated Services in the Territory of the European Union**

If the transshipment or storage or other services associated with goods transport services in the territory of the European Union associated services are provided to a receiver of services who is registered as a taxable person in another Member State of the European Union, then as the place of supply of services shall be deemed to be that Member State in which the receiver of services is registered as a taxable person.

*[11 March 2004; 20 December 2004]*

### **Section 24. Place of Provision of Intermediary Agent Services in the Territory of the European Union**

(1) The place of provision of intermediary agent services shall be determined in accordance with Section 4, Paragraph three and Paragraph seven, Clause 9 of this Law. If the intermediary agent provides services to taxable persons in another Member State, the place of supply of services shall be that Member State of the European Union in which the receiver of the services is registered as a taxable person.

(2) If the intermediary agent participates in the provision of goods transport services in the territory of the European Union, the place of provision intermediary agent services shall be that Member State of the European Union in which the goods transport service was commenced. If the intermediary agent participates in the provision of goods transport services in the territory of the European Union to the taxable person of another Member State, the place of provision intermediary agent services shall be that Member State of the European Union in which receiver of the service is registered as a taxable person.

(3) If the intermediary agent participates in ensuring the services referred to in Section 23 of this Law, the place of provision intermediary agent services shall be that Member State of the European Union in which the service is actually provided. If the intermediary agent participates in ensuring the referred to services and the service is provided to a taxable person in another Member State, the place of provision intermediary agent services shall be that Member State of the European Union in which receiver of the service is registered as a taxable person.

*[11 March 2004]*

#### **Section 25. Place of Supply of Services Associated with Movable (tangible) Property in the Territory of the European Union**

The place of supply of services associated with movable (tangible) property in the territory of the European Union shall be the place where the service is provided. If such services are provided to another Member State taxable person, and the movable (tangible) property after the provision of the service is exported from inland, the place of provision of the service shall be that Member State of the European Union in which the recipient of the service is registered as a taxable person.

*[11 March 2004]*

#### **Section 26. Registration in the State Revenue Service Register of Value Added Tax Taxable Persons**

(1) If for a non-taxable legal person or a non-taxable natural person who performs economic activities, the value of goods without tax acquired in the territory of the European Union reaches or exceeds 7000 lats in the current calendar year, then the relevant person within a period of 30 days after the reaching or exceeding of such amount shall register in the State Revenue Service Register of Value Added Tax Taxable Persons. After registration in the State Revenue Service Register of Value Added Tax Taxable Persons, such person may voluntarily withdraw not earlier than two years from the day of registration.

(2) If another Member State person supplies goods inland to a non-taxable person to

whom in the Republic of Latvia excise duty is applied, then such other Member State person prior to the performance of the transaction shall register in the State Revenue Service Register of Value Added Tax Taxable Persons irrespective of the value of the excise goods supplied.

(3) If another Member State taxable person performs distance supply of goods in the territory of the European Union and the goods are received in Latvia, and the total amount of such supply of goods without taxes in the current calendar year reaches or exceeds 24 000 lats, then such other Member State taxable person shall, within a period of 30 days after such amount has been reached or exceeded, register in the State Revenue Service Register of Value Added Tax Taxable Persons.

(4) If another Member State person supplies goods to a non-taxable person and such goods are assembled or erected inland, then such other Member State taxable person prior to the performance of the transaction shall register in the State Revenue Service Register of Value Added Tax Taxable Persons irrespective of the value of the assembled or erected goods.

(5) If another Member State taxable person provides the services referred to in Section 4, Paragraph four, Clause 1 and Paragraph five of this Law to any person, then such other Member State taxable person prior to the provision of the service shall register in the State Revenue Service Register of Value Added Tax Taxable Persons irrespective of the value of the services provided.

(6) If another Member State person provides the services inland referred to in Section 4, Paragraph two, Clauses 2 and 3 and Paragraph six of this Law to a non-taxable person, then such other Member State person prior to the provision of the service shall register in the State Revenue Service Register of Value Added Tax Taxable Persons irrespective of the value of the services provided.

(7) Another Member State person has the right to register in the State Revenue Service Register of Value Added Tax Taxable Persons also if he or she has not reached the registration threshold referred to in Paragraph three of this Section.

(8) If in this Section it is not otherwise specified, another Member State person who inland performs the acquisition of goods in the territory of the European Union or supply of goods shall register in the State Revenue Service Register of Value Added Tax Taxable Persons irrespective of the value of the goods acquired. The referred to norm shall not be applied to those other Member State persons who do not perform economic activities in the territory of the European Union.

(9) Persons whose legal address is in the Republic of Latvia and who receive foreign financial assistance from European Union pre-structural funds, prior to the acquisition of goods in the territory of the European Union performed within the scope of the project and prior to the receipt of services from taxable person from other Member States, shall register in the State Revenue Service Register of Value Added Tax Taxable Persons for a period until the end of project activities.

*[11 March 2004; 7 April 2004; 20 December 2004]*

## **Section 27. Triangular Transactions**

(1) In a triangular transaction the dispatcher of the goods, an intermediary and the final recipient of the goods are involved. The dispatcher of the goods on the basis of instructions from the intermediary shall dispatch the goods to final recipient of the goods.

(2) In triangular transactions:

1) the dispatcher of the goods performs the supply of goods in the territory of the European Union to the intermediary;

2) the intermediary performs the acquisition of the goods in the territory of the European Union and the supply of goods in the territory of the European Union to the final recipient of the goods. In the quarterly statement regarding supply of goods in the territory of the European Union such supply shall be endorsed with the letter S; and

3) the recipient of the goods performs the acquisition of the goods in the territory of the European Union.

*[11 march 2004]*

## **Section 28. Application of the 0 Per Cent Tax Rate for Transactions in the Territory of the European Union**

(1) The 0 per cent tax rate shall be applicable to the supply of goods in the territory of the European Union by taxable persons if:

1) the accompanying documents of the goods (including invoices) indicate that the receiver of the goods is another Member State taxable person with a valid registration number in such state's register of value added tax taxable persons; and

2) the goods are dispatched or transported from inland to a destination in another Member State and this is certified by the existing goods transportation documents at the disposal of the supplier of the goods.

(2) The 0 per cent tax rate shall be applicable to the supply of goods performed by an intermediary if he or she participated in triangular transactions in accordance with Section 27 of this Law.

(3) The 0 per cent tax rate shall be applicable to the performance of the supply of goods by a taxable person intended for assembly or erection to another Member State taxable person. The value of the assembly or erection service for the goods shall be included in the value of the supply of the goods.

(4) The 0 per cent tax rate shall be applicable to the provision of goods transport services by a taxable person in the territory of the European Union if it is provided to another Member State taxable person.

(5) The 0 per cent tax rate shall be applicable to the performance of the supply of new means of transport by any person to another Member State person.

(6) If a taxable person provides the services, which are referred to in Section 4, Paragraph four, Clause 2 and Paragraph seven of this Law to another Member State person, the 0 per cent tax rate shall be applicable to the services.

(7) If a taxable person provides the services, which are referred to in Section 25 of this Law to another Member State person, and after the provision of the service the movable property is exported from inland, the 0 per cent tax rate shall be applicable to the services.

(8) If a taxable person – an intermediary agent – provides the services, which are referred to in Section 24 of this Law to another Member State taxable person, the 0 per cent tax rate shall be applicable to the services.

(9) Persons who are registered in the State Revenue Service Register of Value Added Tax Taxable Persons in accordance with Section 26, Paragraph nine of this Law, the 0 per cent tax rate shall be applicable to:

1) the acquisition of goods in the territory of the European Union performed within the scope of the project; and

2) the receipt within the scope of the project of the services referred to in Section 4, Paragraph four, Clauses 2 and 3, as well as Paragraphs six and seven of this Law.

*[11 March 2004; 20 December 2004]*

### **Section 29. Value of Supply of Taxable Goods in the Territory of the European Union and Value of Acquisition of Goods in the Territory of the European Union**

(1) The value of supply of taxable goods in the territory of the European Union shall be determined in accordance with Section 2, Paragraph four of this Law.

(2) The value of the acquisition of goods in the territory of the European Union shall include all payments (including for intermediation, insurance, packaging, and transportation), which the supplier collects from the purchaser, as well as excise duty and other taxes and fees if such is provided for in specific regulatory enactments, except value added tax.

(3) In performing the movement of goods in accordance with Section 18, Clauses 2 and 3, the value of the acquisition of goods in the territory of the European Union and supply of goods in the territory of the European Union shall be the purchase value of such goods or the cost of the goods, which is determined at the moment of the supply of the goods.

*[11 March 2004; 7 April 2004]*

### **Section 30. Procedures by which the Tax for the Acquisition of Goods in the Territory of the European Union is Calculated and Paid**

(1) If a taxable person receives goods from another Member State taxable person, then he or she shall calculate and pay the tax into the State budget applying to such transactions the appropriate rate of tax in accordance with Section 5, Paragraph one or three of this Law. The referred to norm shall be applicable also to those persons who receive electricity and natural gas utilising distribution systems from taxable persons from other Member States.

(2) If a non-taxable person performs the acquisition of goods in the territory of the European Union, his or her tax shall not be calculated and shall not be paid into the State budget until the registration threshold referred to in Section 26, Paragraph one of this Law has been reached.

(3) If a non-taxable legal person or natural person who performs economic activities has reached the registration threshold referred to in Section 26, Paragraph one of this Law,

then he or she, after registration in the State Revenue Service Register of Value Added Tax Taxable Persons, for the acquisition of goods in the territory of the European Union, shall calculate and pay the tax into the State budget applying to such transactions the appropriate rate of tax in accordance with Section 5, Paragraph one or three of this Law.

(4) If a taxable person receives goods from another Member State taxable person and such person himself or herself or a third person in his or her name erects or assembles the goods, then the receiver of the goods shall pay the tax into the State budget.

(5) If goods are received in the Republic of Latvia from taxable persons from other Member States of the European Union, the tax for the acquisition of goods need not be calculated and need not be paid into the budget.

*[11 March 2004; 20 December 2004]*

### **Section 31. Procedures by which the Tax for Services in the Territory of the European Union is Calculated and Paid**

(1) If another Member State taxable person provides goods transport services in the territory of the European Union to a taxable person, then the tax shall be paid into the State budget for the received service by the receiver of the service.

(2) If a taxable person receives the services referred to in Section 4, Paragraph four, Clauses 2 and 3 and Paragraph seven, and Section 24, Paragraph one of this Law, then the tax shall be paid into the budget by the receiver of the service.

*[11 March 2004; 20 December 2004]*

### **Section 32. Procedures by which the Tax for Services Provided Electronically in the Territory of the European Union is Calculated and Paid**

(1) A non-registered person in the territory of the European Union who in the territory of the European Union provides a non-taxable person who does not perform economic activities the services referred to in Section 4, Paragraph seven, Clause 11 of this Law, may register such supply of services in the Republic of Latvia. The State Revenue Service shall register such person as an electronic service provider in the territory of the European Union irrespective of the value of the service provided.

(2) The person referred to in Paragraph one of this Section shall pay the tax according to the procedures specified by the Cabinet from the value of the service provided.

(3) The Cabinet shall determine:

1) the procedures by which the person referred to in Paragraph one of this Section shall submit to the State Revenue Service a registration submission;

2) the procedures by which the State Revenue Service shall register the person referred to in Paragraph one of this Section as an electronic service provider in the territory of the European Union, and the time periods for registration; and

3) the procedures by which a non-registered person in the territory of the European Union who is registered in the Republic of Latvia as an electronic service provider in the territory of the European Union shall submit to the State Revenue Service tax declarations and pay in the amounts of tax for the services referred to in Paragraph

one of this Section, as well as the time periods for the submission of tax declarations and payments of the amounts of tax.

(4) The tax which the non-registered person in the territory of the European Union referred to in Paragraph one of this Section has paid inland for goods and services to ensure the provision of his or her electronic services, shall be repaid from the State budget applying the procedures specified in Section 12.<sup>2</sup> of this Law.

*[11 March 2004]*

### **Section 33. Application of Tax in Release of Goods for Free Circulation Inland**

(1) If goods which are imported into the territory of the European Union are released for free circulation inland, the tax which is calculated in accordance with Section 5, Paragraph one or three of this Law, the receiver of the goods shall pay into the State budget after the release of the goods for free circulation.

(2) A taxable person who operates in the name of another Member State taxable person in releasing goods for free circulation shall apply a 0 per cent tax rate if:

1) it is indicated in the accompanying documents of the goods that the receiver of the goods is another Member State taxable person who has a valid value added tax registration number; and

2) the goods after release for free circulation are transferred by the receiver of the goods referred to in Clause 1 of this Paragraph to another Member State.

(3) The taxable person referred to in Paragraph two of this Section in transferring the goods after release for free circulation to another Member State, shall indicate the supply of the goods on his or her own tax declaration and in the quarterly statement regarding supply of goods in the territory of the European Union.

(4) If the goods are released for free circulation in another Member State and is transferred for ensuring the economic activity of the taxable person inland, such person shall calculate and pay the tax into the State budget.

*[11 March 2004; 20 December 2004]*

### **Section 34. Application of the Tax in Performing the Acquisition and Supply of New Means of Transport in the Territory of the European Union**

(1) Any person in acquiring a new means of transport from another Member State person and registering it inland shall pay the tax. A non-taxable person shall pay the tax into the State budget prior to the registration of the means of transport.

(2) If a non-taxable person acquires a new means of transport from another Member State person, he or she shall inform the State Revenue Service by the fifteenth of the next calendar month, submitting a notice regarding the acquisition of a new means of transport and copy of a document certifying the payment of the tax.

(3) If a non-taxable person supplies a new means of transport to any other Member State person, then a 0 per cent tax rate shall be applied for such supply according to the procedures specified by the Cabinet.

(4) The Cabinet shall determine the procedures by which the amount of tax to be paid

shall be calculated, and the procedures by which a non-taxable person shall:

1) draws up and submits to the State Revenue Service a tax invoice regarding the supply of a new means of transport;

2) submits to the State Revenue Service documents for the refund of tax from the State budget; and

3) receives from the State budget the amount of tax to be repaid regarding the supply of a new means of transport.

*[11 March 2004; 20 December 2004]*

## **Chapter VII Final Provisions**

*[11 March 2004]*

### **Section 35. Liability for Violations of this Law**

(1) Liability of taxable persons for failure to pay the tax in the correct amount and on time shall be determined pursuant to the legislative enactments of the Republic of Latvia.

(2) If the tax amount to be paid into the budget calculated in the tax declaration has been reduced, or the amount to be repaid from the budget or the tax amount to be carried forward to the next taxation period has been increased, the taxation administration shall calculate and for the benefit of the budget shall recover from the taxpayer the reduced (increased) amount of tax and a fine in the same amount thereof.

(2<sup>1</sup>) If the taxable person in the taxation period has calculated the amount payable and included it in the tax declaration regarding the post taxation period or the post taxation period following thereof, the referred to tax amount for the late period shall be calculated for the increase in the basic debt and fines for late payments in accordance with the Law On Taxes and Fees

(3) If a person has not registered with the State Revenue Service in accordance with the requirements of Section 3 of this Law as a taxable person, but carries on taxable transactions, such a person shall be subject, from the day when he or she should have registered in accordance with the procedures prescribed in this Law, to payments of value added tax without the right of deductions of input value added tax. If the person referred to performs the supply of taxable timber, this person shall, from the day when he or she had to register according to the procedures specified by this Law, have applied a fine determined at an amount of 18 per cent of the value of the timber supplied.

(4) If a person unlawfully issues a tax invoice, receives the tax which he or she do not have the right to receive, or intentionally performs other actions not permitted by this Law, the State Revenue Service shall have the right to recover, by undisputed process, the unlawfully received tax amounts for the State budget and to collect a fine in the amount of 200 per cent of the unlawfully received tax amount.

(5) If a taxable person who in importing fixed assets has not paid the tax in accordance with Section 12, Paragraph 2.<sup>1</sup> of this Law, and within a period of one year from the time of importation has leased them or otherwise alienated them, he or she shall pay a fine which is determined at an amount of 18 per cent of the value of the fixed assets indicated

in customs declaration. This norm is not applicable to those taxable persons for whom the performance of lease or leasing transactions is their primary activity.

(6) If a taxable person who in supplying goods or providing services to another Member State person has without justification applied the 0 per cent tax rate, then he or she shall pay into the State budget the unpaid amount of tax and a fine in accordance with the Law On Taxes and Fees.

(7) If a non-taxable legal person or non-taxable natural person who performs economic activities, he or she shall pay into the State budget the unpaid amount of tax and a fine in accordance with the Law On Taxes and Fees if he or she:

1) has not paid the tax regarding services received in accordance with Section 12, Paragraph 1<sup>2</sup> of this Law; or

2) has not registered in the State Revenue Service Register of Value Added Tax Taxable Persons after, in relation to the acquisition of goods in the territory of the European Union, the registration threshold specified in Section 26 of this Law has been reached.

(8) A non-taxable legal person or non-taxable natural person shall pay into the State budget the unpaid amount of tax and a fine in accordance with the Law On Taxes and Fees if he or she has not paid the tax for the acquisition of a new means of transport in accordance with Section 34, Paragraph two of this Law.

(9) If the non-taxable person has not calculated and has not paid the tax into the State budget in accordance with Sections 30 and 31 of this Law, he or she shall pay a fine in the amount of 10 per cent of the amount of unpaid tax.

[11 March 2004; 20 December 2004]

### **Section 36. Procedures for Application of the Provisions of this Law**

The procedures for application of the norms of this Law, in providing interpretation of the norms of this Law and explanatory examples, shall be regulated by Cabinet regulations.

[11 March 2004]

### **Transitional Provisions**

1. With the coming into force of this Law, the following laws and regulations are repealed:

1) the Law On Turnover Tax (*Latvijas Republikas Augstākās Padomes un Valdības Ziņotājs*, 1992, Nos. 2/3, 10, 29./31; 1993, Nos. 1/2, 20/21, 24/25; *Latvijas Republikas Saeimas un Ministru Kabineta Ziņotājs*, 1993, No. 31; 1994, Nos. 2, 12) and the regulations, instructions and letters of the Cabinet, the Ministry of Finance and the State Revenue Service, which regulate the application of the Law On Turnover Tax;

2) the 19 December 1991 Supreme Council of the Republic of Latvia Resolution On the Procedure for Coming into Force of the Law of the Republic of Latvia On Turnover Tax (*Latvijas Republikas Augstākās Padomes un Valdības Ziņotājs*, 1992, No. 2);

3) the 12 February 1992 Supreme Council of the Republic of Latvia Resolution On the Procedure for Coming into Force of the Law On Amendments and Additions to the 18 December 1991 Law of the Republic of Latvia On Turnover Tax (*Latvijas Republikas Augstākās Padomes un Valdības Ziņotājs*, 1992, No. 10);

4) the 1 June 1993 Supreme Council of the Republic of Latvia Resolution On the Coming into Force of the Law On Amendments to the 18 December 1991 Law of the Republic of Latvia On Turnover Tax (*Latvijas Republikas Augstākās Padomes un Valdības Ziņotājs*, 1993, No. 24);

5) the 1 June 1993 Supreme Council of the Republic of Latvia Resolution On the Coming into Force of the Law On Amendments and Additions to the 18 December 1991 Law of the Republic of Latvia On Turnover Tax (*Latvijas Republikas Augstākās Padomes un Valdības Ziņotājs*, 1993, No. 24);

6) the 10 July 1991 Presidium of the Supreme Council of the Republic of Latvia Resolution On the Interpretation of the Term “Excursion Services” Used in the 18 December 1991 Law of the Republic of Latvia On Turnover Tax; and

7) the 12 November 1992 Presidium of the Supreme Council of the Republic of Latvia Resolution On the Interpretation of the Term “Charged-for Services and Work” regarding Budget Organisations and Institutions Used in the 18 December 1991 Law of the Republic of Latvia On Turnover Tax (*Latvijas Republikas Augstākās Padomes un Valdības Ziņotājs*, 1992, No. 46)

2. With the coming into force of this Law, the payers of turnover tax registered at the State Revenue Service shall be treated as persons taxable with value added tax.

3. The provisions of this Law, the implementation of which shall be governed by Cabinet regulations, may not be applied before the relevant regulations of the Cabinet come into force.

4. Payers of turnover tax who have the right not to be registered as taxable persons in accordance with Section 3 of this Law may, until 1 May 1995, give notice regarding their withdrawal from further payment of the tax.

5. Undertakings (companies) which have equipped petrol filling stations with electronic cash systems by 1 January 1998 are permitted, in accordance with procedures prescribed by the Cabinet, to reduce the payments of value added tax into the State budget, but by not more than 1500 lats for each petrol filling station.

6. The regulations provided for in Section 7, Paragraph four of this Law shall be adopted by the Cabinet by 1 July 1998.

7. [22 November 2001]

8. Clause 18 of Section 6, Paragraph one of this Law shall be in force until 31 December 2002.

9. Paragraphs fourteen and fifteen of Section 10 of this Law shall be in force until 31 December 2001.

10. If a hire-purchase (leasing) contract in which the object of the leasing conforms to the supplied goods referred to in Section 6, Paragraph one of this Law, and is entered into by 1 January 2001, tax shall not be calculated regarding payments which in accordance with this contract are to be paid after 1 January 2001. If the conditions of such hire-purchase (leasing) contract are not complied with and the object of the leasing remains in the ownership of the giver of the leasing, the tax shall be applicable as a lease transaction according to the procedures specified in Section 12, Paragraph six of this Law.

10<sup>1</sup>. If the hire-purchase (leasing) contract regarding the supply of taxable goods is entered into up to 1 January 2001 and in the leasing contract there is separately recorded credit interest which up to 31 December 2000 was not taxable, then this interest shall not be taxable also after 1 January 2001 until the end of the operation of the concrete contract.

11. The State Revenue Service shall by 1 February 2001 formulate the procedures for the issuance and control of the certificates referred to in Section 12, Paragraph 2<sup>1</sup> of this Law and shall ensure the separate accounting of the issued certificates in the State Revenue Service territorial offices and customs authorities.

12. The Cabinet shall adopt new regulations provided for in Section 17 of this Law in relation to the procedures for applying the norms of the Law On Value Added Tax. Up to the day of the coming into force of the regulations referred to, but not longer than 1 May 2001, Cabinet Regulation No. 187 of 19 May 1998, Procedures for the Application of the Norms of the Law On Value Added Tax, insofar as they are not in contradiction to this Law shall be applicable.

13. Section 10, Paragraph one, Clause 4 and Section 12, Paragraphs 2<sup>1</sup> and 2<sup>2</sup> of the Law On Value Added Tax shall come into force on 1 April 2001. Up to the day of the referred to law norms coming into force, the norms of Paragraph two, Clause 3 and Paragraph five of Section 6 are in force.

14. The regulations provided for in Section 12.<sup>1</sup> of the Law On Value Added Tax shall be adopted by the Cabinet by 1 April 2001.

15. Section 3, Paragraph four of the Law On Value Added Tax shall be in force up to 31 December 2001.

16. [18 December 2003]

17. Section 7, Paragraph 4<sup>1</sup> of the Law On Value Added Tax shall come into force on 1

January 2002.

18. Section 13, Paragraph six of the Law On Value Added Tax shall be in force up to 31 December 2002.

19. Section 13<sup>2</sup>, Paragraph three of the Law On Value Added Tax shall come into force on 1 April 2001.

20. Section 6, Paragraph one, Clause 14, Sub-clause c) and Clause 15; Section 7, Paragraph 4<sup>1</sup> and Section 12<sup>1</sup> of the Law On Value Added Tax shall be in force up to 31 December 2002.

21. Section 5, Paragraph three; Section 6, Paragraph one, Clause 9<sup>2</sup>; Section 6.<sup>1</sup>, Clauses 2, 3, 5, 6, 7, 8, and 9; and Section 12<sup>2</sup> of the Law On Value Added Tax shall come into force on 1 January 2003.

22. The Cabinet shall, by 1 October 2002, issue the regulations provided for in Section 12.<sup>2</sup> of this Law.

23. The Cabinet shall, by 31 December 2002, issue regulations which are associated with the implementation of a 9 per cent rate of value added tax.

24. Section 12, Paragraph 10<sup>1</sup> of the Law On Value Added Tax shall be applicable also in relation to the refund of amounts of value added tax which up to day of the coming into force of this amendment and in relation to which a tax administration decision has not been taken regarding its refund or direction to cover another tax, fee or mandatory payment.

25. Section 6, Paragraph one, Clause 14, Sub-clause “d” of the Law On Value Added Tax shall be in force until 30 June 2006.

26. Section 6, Paragraph one, Clause 9 of the Law On Value Added Tax shall be in force up to 30 June 2005 (inclusive).

27. The coming into force of Section 6, Paragraph one, Clauses 9<sup>1</sup>; amendment to Section 11, Paragraph 5<sup>1</sup> in relation to the deletion of the second sentence and the amendment to Paragraph seven shall come into force on 1 May 2004.

28. [18 December 2004]

29. Undertakings producing heating (taxable persons), which supply heating to inhabitants in submitting the tax declaration for July 2006 may deduct the input value added tax paid for acquired heating fuel in 2005 and 2006 and not deducted. The amount of input value added tax to be deducted shall be determined in relation to the residual

amount of existing heating fuel on 1 July 2006 specified by the results of an inventory, taking into account the proportion applied at the moment of acquisition.

30. Up to the day of the coming into force of the lists approved by the Cabinet referred to in Section 6, Paragraph one, Clauses 9<sup>1</sup>; Section 6.<sup>1</sup>, Clause 3; Section 6.<sup>2</sup>, Clauses 1, 2, 3 and 4 of the Law On Value Added Tax, but not later than by 1 July 2004, the relevant lists which have been developed by the Ministry of Welfare (Ministry of Health) and Ministry of Agriculture and co-ordinated with the Ministry of Finance shall be applicable.

31. Section 5, Paragraph 3; Section 6, Paragraph one, Clause 20 and Section 6.<sup>1</sup> shall be in force until 30 April 2004 (inclusive).

32. Section 5, Paragraph 4 and Section 6.<sup>2</sup> shall come into force on 1 May 2004.

33. The Cabinet shall, by 1 April 2004, issue the regulations provided for in Section 2, Paragraph fifteen; Section 7, Paragraphs one and four; Section 12, Paragraph 2<sup>3</sup>; Section 12.<sup>2</sup>; Section 32, Paragraph three and Section 34, Paragraph three of this Law.

34. The Cabinet shall, by 1 April 2004, issue regulations which are associated with the application of value added tax to transactions in the territory of the European Union.

35. If the contract regarding hire-purchase (leasing) was entered into up to 30 April 2004, the tax for this transaction shall be payable together with payments to be made in the time periods indicated in the contract, applying such a tax rate as was applicable on the day of the entering into of the hire-purchase (leasing) object contract. If the contract regarding hire-purchase (leasing) was entered in respect of the supply of the goods referred to in Section 6, Paragraph one of this Law, but the conditions of the contract are not fulfilled and therefore the hire-purchase (leasing) object remains the property of the lessor, the tax shall be applied as a leasing transaction and related to all the previously made hire-purchase (leasing) payments. In such case, to the unpaid tax amount shall be applied the increase in the basic debt and fines for late payments provided for in Section 29 of the Law On Taxes and Fees.

36. The crediting of leasing, which is performed in accordance with a contract that is entered into up to 30 April 2004 shall be deemed to be a financial transaction and the tax shall not be applicable to such crediting.

37. The tax for goods, which are imported inland from Member States or candidate states of the European Union up to 30 April 2004, in applying one of the customs procedures or regimes, shall be applied and paid into the budget according to the procedures specified by law after the completion of the customs procedure – release of goods for free circulation.

38. A taxable person who is included in the list of persons prepared and published in the newspaper *Latvijas Vēstnesis* by the Enterprise Register of the Republic of Latvia, which by 31 December 2004 in accordance with Section 19, Paragraph one of the Law on Procedures for the Coming into Force of The Commercial Law have not applied for recording in the commercial register and regarding the liquidation of which a decision has not been taken, shall be deemed to be excluded from the taxable persons register commencing from the day when the referred to list was published.

39. The supply of goods and the acquisition of goods in the territory of the European Union and the provision of services in the time period from 1 May 2004 to 31 December 2004 shall be deemed to have occurred also in the following cases:

- a) goods have been dispatched and tax invoices written, or
- b) goods have been received and tax invoices have been received, or
- c) services have been provided and tax invoices written, or
- d) payment has been made in advance, or
- e) consideration received in advance.

40. Tax for the taxable transactions referred to in Paragraph 39 of the Transitional Provisions shall be paid into the budget or deducted as input tax in the taxation period when the goods were supplied and the tax invoice written, the service provided and the tax invoice written or an advance has been received, goods have been received and tax invoices received, the service has been received and tax invoices received or an advance payment has been made. However, if the taxable person in this time period has calculated the tax and the input tax has been deducted due to the fact that one of the conditions referred to has come into effect (in terms of time – the first), a correction to the tax declaration need not be performed.

41. Until the day of the coming into effect of the list approved by the Cabinet referred to In Section 6, Paragraph one, Clause 9<sup>1</sup> of this Law, but not later than 1 May 2005, Cabinet regulation No. 442 of 27 April 2004, Regulations regarding Medical Services, which are not Taxable with Value Added Tax shall be applied.

42. Until the day of the coming into effect of the list approved by the Cabinet referred to In Section 6.<sup>2</sup>, Paragraph one, Clause 2 of this Law, but not later than 1 May 2005, Cabinet regulation No. 550 of 21 June 2004, Regulations with respect to the supply of Medical Devices and Medical Goods to which a Five Per Cent Value Added Tax Rate is Applied shall be applied.

43. Amendments to Section 7, Paragraph four of this Law shall come into force on 1 September 2005.

44. The Cabinet shall issue, by 1 July 2005, the regulations provided for in Section 10, Paragraph sixteen of this Law.

*[13 November 1997; 15 April 1999; 23 November 2000; 1 march 2001; 22 November*

2001; 9 October 2002; 12 December 2002; 6 November 2003; 18 November 2003; 11 March 2004; 11 November 2004; 20 December 2004; 16 June 2005]

### **Informative Reference to European Union Directives**

This Law contains legal norms arising from Directives 77/388/EEC and 86/560/EEC.  
[6 November 2003]

This Law shall come into force on 1 May 1995.

This Law has been adopted by the *Saeima* on 9 March 1995.

President

G. Ulmanis

Rīga, 30 March 1995

### **Transitional Provisions Regarding Amendments to the Law On Value Added Tax**

Transitional Provisions  
(regarding amending Law of 26 October 1995)

This Law shall come into force the day after its proclamation.

Transitional Provisions  
(regarding amending Law of 25 April 1996)

Farms which are registered as taxable persons and which, in accordance with this Law have a right to choose whether to register as a taxable person shall be excluded from the register of tax payers pursuant to a written submission in accordance with the procedures prescribed by the Cabinet.

Transitional Provisions  
(regarding amending Law of 28 November 1997)

This Law shall come into force on 1 January 1998.

Transitional Provisions  
(regarding amending Law of 25 November 1999)

This Law shall come into force on 1 January 2000.

Transitional Provisions  
(regarding amending Law of 23 November 2000)

This Law shall come into force on 1 January 2001.

Transitional Provisions  
(regarding amending Law of 22 November 2001)

This Law shall come into force on 1 January 2002, except for the amendments to Section 12 of the Law On Value Added Tax, which shall come into force on the next day after the proclamation of this Law.

Transitional Provisions  
(regarding amending Law of 9 October 2002)

This Law shall come into force on 1 January 2003.

Transitional Provisions  
(regarding amending Law of 12 December 2002)

This Law shall come into force on 1 January 2003.

Transitional Provisions  
(regarding amending Law of 20 December 2004)

This Law shall come into force on 1 January 2005.