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Amendments to tax laws 2024 in a spotlight

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→ Amendments to tax laws 2024 in a spotlight

On 09 December 2023 the Law “On the State Budget 2024 and the Budget Framework 2024, 2025 and 2026” was adopted. The state budget package 2024 also includes several draft laws related to amendments to tax laws. We will examine in more detail amendments in tax regulations adopted within the budget 2024 package. In addition, we will also examine amendments to the Value Added Tax Law in relation to the obligations of payment service providers which were adopted outside the scope of the budget package.

Amendments to the Value Added Tax Law (VAT Law)

Adjustment of the input tax for bad debts

The procedure of making input tax adjustments for bad debts has been amended.

The main changes as from the 1st January 2024 are as follows.

- The threshold amount determining the procedure for adjustment of the input tax for bad debts will be increased from EUR 430 to EUR 1000. Amendments regarding the amount of a bad debt are applicable to tax invoices issued as from the 1st January 2024.
- the term before which supplies to a debtor should be discontinued to benefit from the entitlement to make adjustments of the input tax for a bad debt is reduced from 6 months to 3 months (this requirement is not applicable to cases when the debtor’s insolvency or bankruptcy has been declared);
- if the debtor’s insolvency or bankruptcy has been declared there is no longer the requirement to recognise the creditor’s claim in the register;
- if all the criteria stipulated by the VAT Law are fulfilled, the input tax adjustment may be made in the VAT return of the current taxable period;
- if the supplier is excluded from the VAT Payer’s Register it is still entitled to make adjustment of the input tax for the bad debt upon the condition that all the criteria stipulated by the VAT Law are fulfilled. In this case the adjustment of the input tax is stated in the VAT return for the last taxable period;

- in cases when adjustment of the input tax for the bad debt has been made and in future the supplier restores cooperation with a customer who is a private individual, the supplier is obliged to pay the adjusted VAT amount to the state budget in the taxable period when cooperation is resumed.

Deduction of the input tax for the costs of maintenance and fuel costs of representation vehicles

A passenger car the value of which excluding VAT exceeds EUR 75,000 is qualified as a representation car.

As from the 1st January 2024, the costs of maintenance and costs of purchase of fuel of a representative car will be considered as usual business operation expenditure for the purpose of application of the CIT if they are incurred after the period of 60 months as from the date when the car was registered in the ownership or possession of an undertaking. After expiring of the above period the undertaking will be allowed to deduct the input tax. However, the general restriction of deducting the input tax applicable to passenger cars will be maintained in force. Thus, also after expiring of the period of 60 months, it will be allowed to only deduct 50% of the input tax for the costs of maintenance and fuel purchase, unless the relevant car is within the narrow scope of restrictions stipulated by the VAT Law.

Increased threshold for mandatory VAT registration

As from the 1st January 2024, a person who carries out economic activity and whose registered address or place of residence is in Latvia will have the right not to register as a VAT payer if its turnover of VAT taxable transactions does not

exceed EUR 50,000 during the preceding 12 months.

Introduction of the VAT exemption for certain activities in the public interest in the field of sports

VAT exemptions will be applicable to foundations and associations active in the field of sports by fulfilling the following criteria:

- foundations and associations are registered in the Register of Foundations and Associations,
- an association or foundation does not gain additional profit from the relevant activity,
- if additional profit is gained the association or foundation uses it for its purposes in the field of sports.

The above referred VAT exemptions are as follows:

- I. VAT exemption for a fee collected by foundations and associations for participation in sports competitions for both children and adults upon the condition that sports competitions are organised and carried out in compliance with laws and regulations in the field of sports.
- II. VAT exemption for a fee for sports classes for children and adults provided by associations and foundations upon the condition that sports classes are provided within the scope of a sports program licensed according to the legislation in the field of education.
- III. VAT exemption for stay of children in children's camps upon the condition that a camp is organised in compliance with the legislation in the field of education.

Reduced VAT rate to supplies of fresh fruit, berries and vegetables

The reduced VAT rate of 12% will be applicable to supplies of fresh fruit, berries and vegetables referred to in the Annex to the VAT Law during the period from the 1st January 2024 to the 31st December 2024.

Rules of VAT repayment to taxpayers of other countries

A person of another country will be entitled to the VAT repayment for services received in Latvia in relation to construction, reconstruction, renovation, restoration or repair of real estate in Latvia upon the condition that these services were received for the purpose of carrying out (1) a further transaction where the client who is a VAT payer registered in Latvia is liable for the VAT payment,

or (2) transactions performed in compliance with the OSS or IOSS regime.

Amendments to the VAT Law regarding payment service providers

Reasons for introducing amendments

The provisions of the Council Directive (EU) 2020/284 of 18 February 2020 amending Directive 2006/112/EC as regards introducing certain requirements for payment service providers (hereinafter - Directive 2020/284) are transposed. The new provisions of the VAT Law oblige payment service providers to account for, store and provide information to the State Revenue Service (hereinafter - the SRS) about payees and cross-border payments. Introduction of these provisions is aimed at preventing evasion of VAT in cross-border transactions in the field of electronic commerce (hereinafter- the e-commerce). Sale of goods and services to end consumers is rapidly expanding within the e-commerce by using cross-border online trading. In particular, the end consumer is located in one EU Member State, and the supplier of goods or services carries out business operations in another EU Member State or in the third country. According to the core principles of application of the VAT, in this case the VAT for sold goods and, in some cases, also for provided services is payable in the Member State of the end consumer. Therefore, the supplier of goods or services should be registered for VAT in all the EU Member States where it has customers or, if all the applicable criteria are fulfilled, should be registered according to a special regime provided by the EU VAT legislation, in particular, OSS or IOSS regime.

Considering the above, on 18 February 2020 the Council of the European Union adopted Directive 2020/84 obliging payment service providers to carry out sufficiently detailed accounting of payees and payments and, if the defined criteria are fulfilled, to send the relevant information to tax administrations to enable the tax administrations of the Member States to perform control and to fight VAT fraud. Tax administrations of the Member States will forward this information to the Central Electronic System of Payment information (hereinafter- CESOP), managed and technically maintained by the European Commission.

Substance of the amendments

In future, the scope of operation of the VAT Law will also include definition of obligations for payment service providers.

The new requirements are only applicable to payments when a tax payer is located in one Member State and the payee is located in another Member State, the third country or territory.

The main obligations of payment service providers are as follows:

- to keep detailed records of payees and of cross-border payments for each calendar quarter;
- to provide information to the SRS regarding payees and cross-border payments;
- to keep the above records in electronic format for a period of three calendar years from the end of the calendar year of the date of the payment.

The provision defines the minimum threshold of 25 cross-border payments to the same payee during a calendar quarter. It is considered that if a payee receives more than 25 cross-border payments during a calendar quarter, this may indicate that the payee carries out economic activity. Thus, in the legislator's opinion, introduction of this threshold allows excluding non-commercial payments from the scope of the new regulation.

It is stipulated that the payment service provider and the SRS are authorised to process identification data of private individuals and cross-border payment data.

The Cabinet of Ministers will draft regulations for payment service providers regarding the records, content of information to be provided and the procedure of submitting it.

Amendments to the Law on Corporate Income Tax (CIT Law)

Extra CIT for credit institutions and providers of the consumer crediting services

Extra CIT for credit institutions and providers of the consumer crediting services will be introduced as from 2024. The obligation to pay the extra CIT will be applicable to credit institutions and providers of the consumer crediting services who are CIT payers in Latvia: capital companies and

foreign subsidiaries or permanent representatives in Latvia.

The amendments provide that credit institutions and providers of the consumer crediting services will make annual CIT payments to the state budget irrespective of distribution of gained profit as dividends. The extra CIT payment will be set equal to 20% of the profit after tax gained during the year preceding the taxable period.

The financial data of a foreign permanent representative of a Latvian undertaking is not taken into account in calculating the extra CIT payment if they carry out separate accounting and pay the CIT in the foreign country.

In calculation of the extra CIT payment, the profit of the year preceding the taxable period is reduced by deducting received dividends (pass-through dividends) and the income gained by alienation of shares of stock/ capital shares held for minimum 36 months. In particular, the extra CIT payment is reduced by deducting the types of income by which the undertaking will be entitled to reduce the amount of dividends included in the CIT taxable base in future.

In order to prevent the risk of double taxation, the extra CIT payment is reduced by deducting the amount already paid during the tax year, however prior to submission of the extra CIT assessment to the SRS regarding the profit of preceding years distributed as dividends (except extraordinary dividends).

It will be allowed to reduce the CIT assessed in future for profit distribution in dividends by deducting the paid extra CIT amount without any term restriction.

The extra CIT payment assessment should be submitted to the SRS within 4 month following the term of submission of the annual report of the undertaking for the year preceding the taxable period. The extra CIT amount should be paid to the state budget until the twenty third date of the month following the month when the extra CIT payment assessment was submitted.

Amendments regarding expenditure of maintenance and fuel purchase of representation cars and a new anti-evasion provision

By making amendments to the CIT Law it is stipulated that, after expiring of the period of 60 months after registration of a representation car in the ownership or possession of an undertaking, it

maintenance and fuel purchase costs should be viewed as expenditure of economic activity and no longer subject to the CIT. The above does not apply to expenditure for purchase or lease of a representation car; these expenses are still subject to the CIT as before and the CIT is payable in the taxable period when the car was purchased or lease payments were made.

The amendments are also applicable to representation cars purchased until the 31st December 2023.

The CIT Law is supplemented by including a new provision stipulating that if a car, based on its fair value, should be qualified as a representation car, however, for the purpose of evading the CIT, the value of the car defined in a lease agreement does not correspond to its fair value, such a car should be considered a representation car for the purpose of application of the CIT and related expenditure is subject to the CIT.

Amendments to the Micro Enterprise Tax Law (MET Law)

Micro Enterprise tax rate

Amendments to the MET Law are made for the purpose of simplifying application and administration of the MET, as well as encouraging use of the simplified tax payment solution, namely, the business income account (BIA). A single MET rate 25% is set.

Liability for tax breaches

In the MET Law it is updated that in case of establishing MET breaches by tax controls of a MET payer, the tax administration assesses the reduced tax and late payment penalty for the period as from the term of payment of the relevant tax until the date of starting the tax control and collects it in the state budget. The term used in the current wording of the MET Law “compliance check” [desk audit] is replaced with the term “tax control” which currently integrates several types of checks existing until now, including the data compliance check. The period of assessment of late payment penalty will also be updated by stipulating that the late payment penalty is assessed for the period from the term of payment of the relevant tax until the date of starting the tax

control instead of the decision on the results of the data compliance check, as it is stipulated by the current MET Law wording.

The non-taxable minimum income and deductions for dependants (amendments to the PIT Law).

The amendments of the PIT Law provide for the entitlement of the MET payers who also receive income subject to the Personal Income Tax at the same time to apply the non-taxable minimum income regarding the Personal Income Tax and deductions for dependants.

Amendments to the Natural Resources Tax Law (NRT Law)

New NRT objects

The amendments define new NRT objects:

- exploration of hydrocarbons;
- textiles;
- products containing plastic and fishing gear containing plastic exempted from the manufacturer’s extended liability system;
- tyres installed on vehicles (which are permanently registered in Latvia for the first time and to which Part One of Section 3 of the End-of Life Vehicles Management Law);
- plastic packaging and the amount of plastic in composite packaging not processed or regenerated during the reporting period.

NRT rates

The following NRT rates will be increased by the amendments:

- plastic packaging and composite packaging (packaging of the increased rate made of expanded polystyrene and plastic foam raw materials, the rate for composite cardboard packaging is set equal to the rate for plastic packaging);
- vehicles;
- household and dangerous waste disposal;
- exploration of natural resources.

Other amendments in the NRT Law

- provisions will be introduced for establishment of the manufacturer’s

- extended liability system and its application to textiles;
- the procedure of application of the NRT to the following objects will be updated:
 - PM10 particle emissions in the air by providing for application of the NRT;
 - total dust emissions (PM);
 - batteries and accumulators taking into account the new types and definitions;
- the time of entry into force of the exemption from the NRT payment following signing of a contract with the deposit system operator on joining the deposit system will be updated;
- requirements for participation of foreign entities in the manufacturer's extended liability system will be updated;
- application of the NRT will be updated regarding the accrual for covering the NRT and its calculation for waste disposal following placement in the biological reactor;
- the currently valid split of the NRT between the main budgets of the state and local governments for exploration or use of natural resources or environment pollution, including waste disposal, will be revised and the liability of the local government in case of a failure to reach the defined waste management goals will be provided;
- the objectives for which local governments may use the funds of the main budget obtained from the NRT payments will be supplemented and updated;
- the transitional provisions will be supplemented by setting the terms of entry into force of certain regulatory provisions.

Amendments to the Law “On Excise Duty”

It is envisaged that starting from the 1st March 2024 the excise duty will be gradually increased for the below listed products over a period of three years:

- cigarettes - on average by 5.6% every year;
- cigars and cigarillos- on average by 23.8% every year;
- smoking tobacco and tobacco leaves by 10% every year;
- heated tobacco - by 5% every year;
- e-liquids for electronic smoking devices and their components - on average by 21% every year;
- tobacco substitute products - on average by 10% every year;

- alcoholic drinks - on average by 5%-10% every year depending on the category.

Excise duty rates will be set for oil products used in special economic zones (SEZ) and free ports. In 2025 and 2026 the excise duty will be increased starting from the 1st January.

Amendments to the Law “On Lotteries and Gambling Fee and Tax”

Starting from the 1st January 2024 tax rates will be increased for gaming machines, roulette and card and dice games, gambling organised by using telecommunications irrespective of the type of the game.

Amendments to the Law “On Application of Taxes in Free Ports and Special Economic Zones”

Amendments are envisaged in the provisions on application of the excise tax rate to oil products intended for use in the free zone territories and free port territories to prevent unequal competition circumstances between undertakings operating in free ports, in particular, merchants holding the status of the free zone and merchants who do not have it. The above amendments will enter into force from the 1st March 2024.

Amendments to the Law “On Personal Income Tax” (PIT Law)

Eligible expenditure related to contributions to Pan-European private pension product (PEPP) plans

In compliance with made amendments to Section 6¹ of the PIT Law, it is provided that the conditions stipulated by the PIT Law in relation to contributions to private pension funds registered in a member state of the EEA or ECD, disbursements of all types of income from these

funds, as well as the obligations and rights obtained by the payer in relation to inclusion of made contributions into eligible expenditure or obtained income from the above funds, are also applicable to relevant contributions to PEPP plans and disbursements from them.

Compensation for remote work

As from the 1st January 2024, the PIT Law includes a permanent provision (Section 8.19.¹ of the PIT Law) exempting compensation for remote working to an employee in the amount of EUR 40 from taxation by maintaining the mandatory conditions for its application.

Taxation of tuition fee paid by the employer

According to the made amendments to the PIT Law, in order to avoid imposing too heavy financial burden to the employer by applying the wage tax and the state social insurance mandatory contributions to the employee's tuition fees for higher education paid by the employer; Section 8.2¹⁴ of the PIT Law stipulates that the tuition fee paid by the employer for the employee's studies in the Latvian education establishments, educational establishments of the European Union Member States and the Member States of the European Economic Area holding the national accreditation is not viewed as income from salaried work if the higher education is related to obtaining skills necessary for the employer.

The employer maintains the obligation to fill in and to submit a statement to the SRS regarding amounts paid to private individuals (income gained by an employee) in relation to payment for studies.

Insurance premiums exempted from the wage tax

Starting from the 1st January 2024 the amount of the insurance premium exempted from the wage tax is increased from EUR 426.86 to EUR 750 if such premiums are paid based on the life, health and accident insurance contract.

Other tax exemptions

Considering the substantial increase of the prices of various goods and services, the threshold of the

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tax exemption has been revised for the types of income referred to in Paragraphs 20, 25 and 27 of Part One of Section 9 of the PIT Law (aid provided from the funds of a trade union, aid from the funds of a religious organisation or its institution, from the funds of a public benefit organisation, and it is set equal for all the above listed types of income by increasing it up to EUR 3000 per year.

Entitlement of the payers of the Micro Enterprise Tax (MET) to apply the non-taxable minimum income and deductions for dependants

The amendments of the PIT Law provide for the entitlement of the MET payers who also receive income subject to the PIT at the same time to apply the non-taxable minimum income and deductions for dependants.

The period of exempting the income of unemployed

In order to secure also further tax exemption of income received by unemployed persons within the scope of active employment measures, it will be stipulated that this provision (in particular, Paragraph 52 of the Transitional Provisions of the PIT Law) is also applicable in 2024, 2025 and 2026.

Author's fees and status as economic operators.

The time period provided by the Transitional Provisions of the PIT Law during which the receivers of the author's fees may choose not to register as economic operators and taxes for them are paid by the payer of the income is extended to the 31st December 2024. Also, considering upcoming amendments in the MET Law, it is planned to set a single tax rate of 25% for all income. During this period of time receivers of the author's fees could assure that application of the simplified tax payment solution, namely, use of the account for revenue from economic operations, has become easier, taking into account that the uniform MET rate of 25% has also been introduced starting from 2024.



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