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Text consolidated by Tulkošanas un terminoloģijas centrs (Translation and Terminology Centre) with amending laws of:

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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*¹ 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 remuneration, 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;

3) **provision 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

¹ The Parliament of the Republic of Latvia

e) the transfer of immovable property to the owner thereof after the completion of construction work;

4) **remuneration** – 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 provision of services, irrespective of whether the payment is made in full or partially;

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

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

7) **taxable person** – a natural or legal person and groups of the persons referred to who are bound by contract or agreement, or their representatives, who carry out the transactions referred to in Section 2, Paragraph two of this Law and who are registered, pursuant to the procedures prescribed in this Law, with the State Revenue Service Register of Value Added Taxpayers;

8) **inland** – the customs territory of the Republic of Latvia, except the customs warehouses, duty-free shops and free zones specified in the Customs Law;

9) **input value added tax** – the value added tax sum indicated on written value added tax invoices for a taxable person regarding goods purchased or services received to ensure his or her economic activity;

10) **agent** – a person who participates in the provision 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 provision of services, and receives remuneration 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** – remuneration 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** – value determined pursuant to the Customs Law;

14) **exchange transaction** - within the meaning of this Law: a transaction of exchange of goods or services in accordance with a contract entered into in written form;

15) **set-off** - within the meaning of this Law: a transaction where settlement of accounts for goods sold (purchased), including securities, or services, takes place on the basis of a claim being extinguished by a counterclaim;

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** – importation of goods for free circulation inland, performing the customs clearance operations provided for in the regulatory enactments regarding customs matters;
 - 18) **international transport:**
 - a) aeroplanes flying international routes,
 - b) ships plying international routes, except fishing-boats registered in the ports of the Republic of Latvia, and
 - c) ships performing rescues or providing assistance at sea;
 - 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 purchased unprocessed agricultural products, and
 - c) organisations which purchase unprocessed agricultural produce in order to form State reserves; and
 - 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 a concluded hire-purchase (leasing) contract, for a specified time period and for the payments specified in the contract, transfers possession to the lessee a particular good (object of the lease). At the termination of the hire-purchase (leasing) contract and the lessee having fulfilled all the obligations provided for in the contract, the object of the lease devolves to the ownership of the lessee;
 - 22) **crediting of leasing** – a financial transaction in which the lessor who operates in accordance with the Credit Institutions Law, on the basis of a concluded crediting of leasing contract, issues to the lessee an amount of credit for the purchase of the object of the lease, at the same time acquiring the ownership rights of the particular good (object of the lease) as security for the credit issued to the lessee, and keeping these rights until the complete fulfilment of the lessee's obligations provided for in the crediting of leasing contract. At the termination of the crediting of leasing contract and the lessee having fulfilled all the obligations provided for in the contract, the object of the lease devolves to the ownership of the lessee.
- [13 November 1997; 15 April 1999; 23 November 2000]

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

(1) Value added tax (hereinafter also – tax) shall be imposed:

1) on the total value of transactions to which this tax is applicable, if the relevant transactions inland have been carried out by a person taxable with value added tax (hereinafter also – taxable person) and if this Law does not prescribe otherwise; and

2) on the importation of goods irrespective of whether the goods are imported by a taxable person or by any other person if the customs procedure which provides for the implementation of customs duties is applied to the goods.

(2) Transactions on which value added tax shall be imposed (hereinafter also – taxable transactions) are the following:

1) supply of goods, also home consumption;

2) provision of services, also home consumption; and

3) the import of goods.

(3) The norms of this Law which regulate the application of taxes to the supply of goods or provision 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 provision of services 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.

(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 provision of such services, except for value added tax.

(8) The taxable value of import of goods transactions shall be the customs value of the imported goods, as well as the customs duty, natural resources tax, excise duty and other taxes and fees if such is provided for in particular regulatory enactments, except for value added tax.

(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 which is taxable shall be considered the agency remuneration.

(12) [22 November 2001]

(13) If person who provides agency services receives full payment for supply of goods or provision 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) If a taxable person participates, while representing a natural or legal person of a foreign state who is not registered in the Enterprise Register of the Republic of Latvia, in supply of goods or provision of services, it shall be deemed that such person has supplied

goods or provided services himself or herself, and all the value of the services provided and of the goods supplied inland shall be taxable.

(15) Trade on a commission basis, which takes place in a individually equipped retail trade shop envisaged for trade on a commission basis, with used goods that are owned by natural persons, or with goods, other than food, produced by natural persons, except trade with used goods which have been imported from foreign states for sale, the remuneration for agency services (commission) shall be taxable in accordance with procedures prescribed by the Cabinet.

(16) In provision of freight forwarding services, the remuneration for the forwarding services shall be taxable.

(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.

(17¹) If within a period of one year after purchase unfinished construction objects are sold, tax shall be applied to the difference between the sale value of the object and its purchase 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. If the object of the lease is not taxable in accordance with Section 6, Paragraph one of this Law, the supplementary payments specified in the contract are also not taxable.

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

(20) If a person exports, pursuant to the procedures specified in the Customs Law, goods from inland for processing or treatment in another state, and afterwards imports them again, the taxable value of the goods shall be assessed in accordance with the Customs Law.

(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; and
- 5) undertakings (companies) which perform agency services by selling:
 - a) tickets for regular carriage of passengers,
 - b) pre-paid telephone cards (including telecards and mobile telephone conversation cards), and
 - c) insurance policies.
- (3) 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]

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 Taxpayers shall be performed in compliance with the following conditions:
 - 1) natural persons shall be registered according to their place of permanent 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 place of permanent residence; and
 - 5) if a foreign person has not established a registered permanent representation in the Republic of Latvia, but performs one or more taxable transactions inland, one of the following persons shall be registered:
 - a) their authorised person in the Republic of Latvia according to the legal address or place of permanent residence of such person, or
 - b) a foreign person – in one of the places where the transaction is carried out in the Republic of Latvia.
- (2) A budget authority shall also be a taxable person if such an authority performs supply of goods and provides services to other persons. The Chancellery of the President of Latvia, the *Saeima* and the Cabinet need not register with the State Revenue Service as taxable persons and are not required to impose value added tax on transactions carried out.
- (3) If the total value of the taxable supply of goods and services provided by natural or legal persons and groups of such persons bound by a contract or agreement, or by representatives of such groups, during the preceding 12 months has attained or exceeded 10 000 lati, they shall be registered with the State Revenue Service as taxable persons not later than one month after attaining or exceeding such sum.
- (4) Farms have the right not to be registered, pursuant to the procedures specified in this Section, as taxable persons if the following conditions are fulfilled:

1) the value of self-produced agricultural products supplied and of home consumption during the preceding 12 months has been at least 90 per cent of the value of the total supplies of goods supplied and services provided by the farm;

2) the total value of taxable supplies of goods supplied and services provided during the preceding 12 months has been less than 30 000 lati; and

3) they submit, pursuant to procedures prescribed by the Cabinet, a request to the State Revenue Service not to be registered as taxable persons.

(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 attained the sum specified in Paragraph three of this Section during the preceding 12 months, they have the right to be registered with the State Revenue Service as taxable persons pursuant to the procedures prescribed by the Cabinet.

(5¹) 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 lati, or as result of this transaction the total taxable value performed within a period of 12 months has reached or exceeded 10 000 lati, 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.

(5²) If the transaction referred to Section 5¹ 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) Taxable persons have a right to a deduction of input value added tax.

(7) A person shall be considered as registered in the State Revenue Service Register of Value added Taxpayers on the day when he or she has been issued with a taxpayers 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.

(8¹) 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; and

2) the taxable person within a period of three months 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.

(8²) A taxable person shall be considered to be excluded from the register of tax payers, 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.

(8³) A taxable person whom the State Revenue Service has excluded from the register of tax payers in accordance with Paragraphs eight or 8¹ 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.

(9) [23 November 2000]

(10) If a foreign natural or legal person which has not established a registered permanent representation office 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 it into the budget irrespective of the value of the taxable services.

(11) If the person referred to in Paragraph ten of this Section is not registered as a taxable person, the value added tax shall be paid by the taxable person who ensures the provision of the relevant services inland or, if there is not such, by the recipient of the services if he or she has registered as a taxable person.

[25 April 1996; 13 November 1997; 15 April 1999; 25 November 1999; 23 November 2000; 22 November 2001]

Section 4. Place of Supply of Goods and Provision of Services

(1) The place of supply of goods and provision of services shall be determined pursuant to the conditions set out in this Section, and such place shall be a criterion for determining whether or not supply of goods or provision of services has occurred inland, as well as for determining which added value tax rate shall be applied.

(2) The place of supply of goods:

1) shall be inland if:

a) supply of goods begins and ends inland, regardless of whether supply has taken place only in the inland territory or by crossing the State border,

b) supply of goods begins in another state and ends inland (import of goods), or

c) supply of goods begins in territory of the Republic of Latvia which is not inland within the meaning of this Law, and ends inland;

2) shall not be inland, if:

a) supply of goods begins inland and ends in another state (export of goods),

b) supply of goods begins inland and ends in territory of the Republic of Latvia which is not inland within the meaning of this Law, or

c) goods are relocated by transit in traffic pursuant to the Customs Law.

(3) The legal address or dwelling place of the provider of services shall be considered the place of provision of services if this Section does not specify otherwise. The legal address or dwelling place of the provider of services shall be inland if the provider of services is registered in the State Revenue Service taxpayer register.

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

1) cultural, artistic, educational, scientific and sports services;

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 provision of services related to immovable property (including services by experts, preparation and co-ordination of construction work, supervision of construction work and services of architectural firms), shall be the place where such property is situated.

(6) The place of provision of transportation services shall be the place where transportation occurs, observing the distances travelled inland and in foreign states. For transportation services that are associated with the export of goods and carriage of transit, the tax shall be applied in accordance with Section 7, Paragraph one, Clause 2 of this Law.

(7) The legal address or place of permanent residence of the recipient of services shall be deemed the place of provision of services for the following services:

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; and

9) services of an intermediary agent.

(8) The place of provision 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) If an unregistered foreign person provides the services referred to in Paragraph seven of this Section, the receivers of the services shall pay the tax to the budget if they are taxable persons.

[25 April 1996; 13 November 1997; 15 April 1999; 25 November 1999; 23 November 2000; 1 March 2001]

Section 5. Tax Rates

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

(2) A tax rate in the amount of 0 per cent is determined for goods supplied and services in accordance with Section 7 of this Law.

(3) A tax rate in the amount of 9 per cent is determined for goods supplied and services in accordance with Section 6¹ of this Law.

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) food services which are financed from the State budget and provided in corrective institutions and places of imprisonment;
- 4) registration of educational, preparatory course and admittance documents services which are provided by State and local government educational institutions, and State-accredited private educational institutions, as well as the catering services which are provided by these educational institutions;
- 5) fees for professional training or retraining of the unemployed which is organised by the State Employment Service;
- 6) library services;
- 7) [13 November 1997]
- 8) theatre, cinema and circus shows, concerts, performances in cultural institutions, visits to museums, exhibitions, zoos and botanical gardens, performances for children and for charitable purposes, performances of amateur arts groups and sporting events;
- 9) health services, supplies of medicaments and medicinal products inland according to a list approved by the Ministry of Welfare and harmonised with the Ministry of Finance, and veterinary medical services, supplies of veterinary medicaments and veterinary medicinal products inland according to a list approved by the Ministry of Agriculture and harmonised with the Ministry of Finance;
- 9¹) medical services according to a list approved by the Ministry of Welfare and harmonised with the Ministry of Finance;
- 9²) 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) burial services, and religious and ritual services provided by religious organisations registered in the Republic of Latvia;
- 13) insurance services provided by insurers and insurance agents in conformity with the Law on Insurance Agencies and their Supervision;
- 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; and
 - c) the supply of hot and cold water, sewerage, heating, and household waste removal;
- 15) specialised products for infants according to a list approved by the Ministry of Welfare and harmonised with the Ministry of Finance;
- 16) scientific research which is performed with funds from public foundations, the State budget and budgets of Local Governments, or international institutions;
- 17) financial transactions, including:
 - a) granting and control of credits (also leasing credit) 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 repayable 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) investments in capital that is conducted in cash, as well as securities and services which are related to the issuing, holding, disposal and administration of securities;
 - e) [15 April 1999]
- 18) mass media in accordance with procedures prescribed by the Cabinet;
- 19) consular services;
- 20) educational and scientific literature, first publications of original literature and publications intended for children in the Latvian language published in Latvia in accordance with lists approved by the Ministry of Education and Science, as well as services of printing-offices in respect of the production (formation) of such literature;
- 21) feature, documentary and animated films (except video films in VHS format), if such are supplied or distributed by a distributor or film producer officially registered in the Republic of Latvia;
- 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) fire-safety services which are provided by the Fire-fighting and Rescue Service of the Ministry of the Interior, and fire-safety services of institutions,

undertakings (companies) and organisations, voluntary fire-fighting societies and voluntary fire-safety associations; and

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*; and

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

(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) objects of art which are imported as additions to museum collections; and

5) the importation of such goods as are not subject to customs duty pursuant to Chapters 6 and 9 of the Law On Customs Duty (Tariffs), except supplies of goods on which a 0 per cent rate of customs duty is imposed.

(3) Tax shall not be imposed at the State border upon the importation of goods if one of the following customs procedures referred to in the Customs Law is performed:

1) temporary importation;

2) importation for processing;

3) importation for processing under customs control;

4) importation to a duty-free shop;

5) importation to a customs warehouse; or

6) transit.

(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]

Section 6¹. Application of 9 Per cent Tax Rate

A 9 per cent tax rate shall be applied to the following:

1) the supply medicaments, medical devices and medical services according to a list approved by the Ministry of Welfare and harmonised with the Ministry of Finance;

2) the supply of veterinary medicaments and veterinary medicinal products and veterinary services according to a list approved by the Ministry of Agriculture and harmonised with the Ministry of Finance;

3) the supply of specialised products for infants according to a list approved by the Ministry of Welfare and harmonised with the Ministry of Finance;

- 4) the supply of books;
- 5) the supply of mass information materials (except for mass information materials of an erotic and pornographic nature);
- 6) guest accommodation services in guest accommodation dwellings – hotels, motels, guesthouses, houses utilised for rural tourism, camping places, tourist accommodation);
- 7) the supplies of water in a centralised water supply system;
- 8) sewerage services; and
- 9) collection, movement and burial services for household wastes.

[22 November 2001]

Section 7. Application of 0 Per Cent Tax Rate

(1) A 0 per cent tax rate shall be applied to the following:

- 1) supplies of goods if the place of supply of such goods is not inland pursuant to Section 4 of this Law;
- 2) services which are related to export and transit conveyances of goods (including transport services in regard to forwarding, storage of goods, loading, unloading, expert examination and sorting);
- 3) services, the place of provision of which is not inland in accordance with Section 4 of this Law;
- 4) services which are provided by international transport, as well as supplies of goods and services related to the supply and maintenance of international transport as follows:
 - a) regarding supply, reconstruction, repair, maintenance, agreements in regard to, and renting of transport vehicles and activities and services related thereto,
 - b) regarding supplies of goods related to the furnishing of transport vehicles; and
 - c) regarding agency services regarding transport vehicles and services related to freight service;
- 5) services related to tourism (travel) in accordance with Section 13 of this Law;
- 6) on the basis of the principle of parity, supplies of goods and services which in accordance with procedures prescribed by the Cabinet are provided to:
 - a) foreign diplomatic and consular embassies in the Republic of Latvia, their diplomatic and consular agents, administrative technical staff, and to the family members of such persons, and
 - b) representation offices of international organisations, and their employees who in the territory of the Republic of Latvia enjoy diplomatic immunity;
- 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; and
- 8) processing services, which are provided to a foreign person not registered in the Republic of Latvia, by a person who has imported into the Republic of Latvia goods in accordance with the customs procedure “importation for processing” specified in the

Customs Law, and has received a permit from the customs authority to process these goods and export compensatory products from the Republic of Latvia.

(2) [23 November 2000]

(3) [13 November 1997]

(4) The tax which foreign natural persons have paid regarding goods (if their value exceeds 50 lati) exported from the customs territory of the Republic of Latvia shall be repaid, in accordance with procedures prescribed by the Cabinet, by the undertaking (company) registered in the Enterprise Register which has received a license for repaying value added tax to foreign natural persons. Procedures for the issuance of licenses, as well as procedures as to how licensed undertakings and shops account between themselves and with the State budget shall be determined by the Cabinet.

(4¹) The tax which foreign natural persons have paid regarding accommodation services in dwellings for the accommodation of guests (hotels, motels, guest houses, houses utilised for rural tourism, camping sites and tourist dwellings), if the value of the accommodation service exceeds 50 lati, shall be repaid by an undertaking (company) which has received a license in accordance with Paragraph four of this Section for repaying value added tax to foreign natural persons. The Cabinet shall determine procedures for the repayment of the tax, as well as procedures as to how licensed undertakings and dwellings for the accommodation of guests, account between themselves and with the State budget.

(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, they shall pay tax for the goods supplied or services provided in conformity with the tax rate prescribed in Paragraph one of Section 5.

[25 April 1996; 13 November 1997; 15 April 1999; 25 November 1999; 23 November 2000; 22 November 2001]

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 forwarded and a value added tax invoice (hereinafter – tax invoice) has been written out, or remuneration for supply has been received prior to the forwarding of the goods.

(2) Provision of a service has taken place if the service has been provided to a client and a value added tax invoice has been written, or the remuneration for the service has been received prior to provision of the service.

(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 submit, in accordance with Paragraph six of this Section, a tax invoice regarding any taxable supply of goods or services not later than within a period of seven days from the time of the transaction. If a taxable person receives services from an unregistered foreign person and pays tax into the budget as a recipient of services, a tax

invoice shall be written within a period of seven days following receipt of the invoice from the provider of the services. If payments are made in accordance with an agreement without the writing of an invoice, a tax invoice shall be written at the time payment is made.

(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.

(6) Documents drawn up pursuant to procedures prescribed by the Cabinet and containing the following information may be utilised as tax invoices:

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 place of permanent 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 place of permanent 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 remuneration for the services provided;

5) the tax rate and the calculated tax; and

6) the date of supply of the goods or of the provision of the service.

(7) A purchase 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 receipt which does not contain the information referred to in Paragraph six of this Section shall be accompanied by a certificate with the missing information and the designation of the relevant requisition, unless otherwise prescribed in this Section.

(8) If an electronic cash register receipt has been issued for a purchase the value of which, exclusive of value added tax, is less than 20 lati and the receipt does not contain the information referred to in Paragraph six, Clause 2 of this Section, the receipt may be used as a tax invoice if the designation of the recipient of goods (for a natural person – first name and surname) and the value added tax taxable persons registration number issued by the State Revenue Service is set out therein. An annotation shall be made on the front or the reverse side of the receipt and the recipient of goods shall confirm it with their signature and seal.

[13 November 1997; 15 April 1999; 22 November 2001]

Section 9. Tax Assessment Period

(1) The tax assessment 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 lati, the time period for the submission of a tax

declaration and the assessment 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 assessment period.

(4) The assessment period for supply of sugar beets shall be determined in conformity with the accounting periods specified in Section 6 of the Law On Sugar and in accordance with procedures prescribed by the Cabinet.

(4¹) The assessment 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 remuneration 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 assessment periods of a calendar year shall constitute the assessment year.

[25 April 1996; 25 November 1999; 22 November 2001]

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. The deductions referred to may be performed after the payment of the tax amounts indicated in the tax invoice or – in supply of goods transactions – after the receipt of the tax invoice and the goods.

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 assessment period as the recipient of services in accordance with tax invoices written by him or her 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 for technological production processes – according to procedures prescribed by the Cabinet; and

5) hire-purchase (leasing) transactions – the amounts of tax indicated in tax invoices received which are written in the time periods specified in the hire-purchase (leasing) contract regarding goods received for ensuring their own taxable transactions.

(2) A tax invoice shall be considered as paid if the concrete payment instrument, apart from the relevant identification data of the tax invoice, also contains a bank annotation regarding the payment (the seal of the bank, the date of payment and the signature of the bank operator). A cash receipt shall evidence payment of a tax invoice in cash. If necessary, the cash receipt shall be accompanied by a certificate, with a seal, which contains, together with the receipt, the full information prescribed in Section 8, Paragraph six of this Law.

(3) Documents which may be utilised to confirm payment of tax for the importation of goods are the following:

1) 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; or

2) a customs payment receipt or a payment instrument of a bank or other institution (post, telegraph) which confirms 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 purchased, 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 purchased 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 assessment period in which it was purchased 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 purchase, 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 purchased 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;

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 purchase or acceptance for service, the taxable person shall repay 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 repayable 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.

(5) [23 November 2000]

(6) [22 November 2001]

(7) 40 per cent of the tax paid for goods purchased 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 only for the carrying out of taxable transactions, the input value added tax which has been paid for such goods purchased and services received 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 purchased 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 assessment 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 purchased and the services received for the carrying out of taxable transactions pursuant to Paragraph nine of this Section.

(12) For other taxable persons, tax amounts as have been paid and which, in accordance with this Section, are not to be deducted from the tax payable into the budget as input value added tax shall be calculated into the cost price of supply of goods or services provided.

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

(14) A person who has not submitted a tax declaration to the State Revenue Service within the time periods determined by this Law shall lose the right to deductions of input value added tax for the assessment period in respect of which they have failed to submit a tax declaration.

(15) A person who has lost the right to deductions of input value added tax in accordance with Paragraph fourteen of this Section may deduct the calculated input value added tax during the post-assessment period in accordance with the tax declaration submitted to the State Revenue Service.

[25 April 1996; 13 November 1997; 15 April 1999; 23 November 2000; 22 November 2001]

Section 11. Tax Declarations

(1) A taxable person shall submit to the State Revenue Service a tax declaration with a tax calculation for an assessment period within a period of 15 days after the end of the assessment 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 submit a tax declaration for an assessment period not later than 25 days after the assessment period.

(2) If a tax declaration is sent 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 assessment 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.

(5¹) 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 assessment period. The statement form shall be approved by the Cabinet, but the procedures for completion of the form – by the State Revenue Service.

(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.

(7) The form of a tax declaration to be submitted for an assessment month, and the form of a tax declaration to be submitted for an assessment year shall be approved by the Cabinet.

[13 November 1997; 15 April 1999; 23 November 2000]

Section 12. Procedures for Paying Tax

(1) A taxable person shall pay the tax into the State budget for an assessment period within a period of 15 days from the end of the assessment 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 an assessment period within a period of 25 days from the end of the assessment period.

(2) Upon importation of goods inland, the tax shall be paid pursuant to the procedures prescribed in customs legislative enactments.

(2¹) If the taxable person in accordance with the procedures specified by the Cabinet imports fixed assets for technological production processes, tax need not be paid, but indicated on the tax declaration as calculated tax if the person submits to the customs authority, a certification issued by the State Revenue Service territorial office that he or she is a taxable person and does not have a value added tax debt.

(2²) In order that fixed assets which the taxable person has imported for technological production processes does not create unfair competition in the State, the Ministry of Economics shall approve the list of goods the analogues of which are produced in Latvia or which are imported by the official representatives in Latvia of the producers of such goods.

(3) Upon selling goods imported inland (processed or unprocessed) for which the tax has not been paid at a customs authority on the border, a taxable person shall pay the tax pursuant to the procedures provided for in this Law.

(4) [23 November 2000]

(5) [23 November 2000]

(6) In transactions carried out as hire purchase (leasing), the tax shall be paid together with payment instalment terms indicated in the hire purchase (leasing) contract.

(2) If the hire-purchase (leasing) contract has been entered into regarding the supply of goods referred to in Section 6, Paragraph one of this Law, but the conditions of the contract entered into are not fulfilled and as a result the object of the lease remains in the ownership of the giver of the lease, the tax shall be applied as to a lease transaction and shall apply to all the previously performed hire-purchase (leasing) payments.

(2) In such case, to the amount of unpaid tax shall be applied the increased basic debt fee and late fee provided for in Section 29 of the Law On Taxes and Fees.

(7) [23 November 2000]

(8) If an exchange transaction or a set-off transaction is carried out over two or more assessment periods, except in the cases set out in Paragraph nine of this Section, the taxable person shall pay the tax into the budget for the goods supplied or the services provided during an assessment period in accordance with the procedures prescribed by law. The tax specified in a tax invoice received during a post-assessment period shall be deducted in the tax declaration as input value added tax in the post-assessment period.

(9) If a set-off agreement has been concluded for a period exceeding one year, the value added tax shall be calculated and paid into the budget pursuant to procedures prescribed by the Cabinet.

(10) If a tax declaration for an assessment 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-assessment period.

(10¹) 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 repay an over-payment (the difference between the calculated tax and the deductible input value added tax), pursuant to a well-founded application and documents attesting to transactions, to a taxable person within 30 days from the submission of the application. If in this period a decision has been taken regarding the commencement of control (examinations, audits) of the taxes to be paid by the taxable person, the State Revenue Service has the right to delay the repayment of the over-paid tax amount for those transactions for which the examination requires additional information, until the day that the taxation administration has evaluated the transaction and taken a decision regarding the validity of the application. The State revenue Service shall inform the taxable person in writing regarding delay of the tax repayment.

(12) The State Revenue Service may refuse to repay 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) a person is registered with the State Revenue Service as a taxable person in accordance with Section 3, Paragraph five of this Law. In such cases the over-payment shall be repaid pursuant to procedures prescribed by the Cabinet;

3) a person is unable to establish by documentary evidence that application of a 0 per cent tax rate is well-founded; or

4) a person requests, during the assessment period, repayment of the overpaid tax amount, but the value of the transactions to which a 0 per cent tax rate is applicable pursuant to Section 7 of 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.

(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]

Section 12¹. Repayment of Value Added Tax to Foreign Legal Persons – Providers of International Road Transport Services

(1) For foreign legal persons which are not registered in the Enterprise Register of the Republic of Latvia, which conduct international road carriage, tax which is paid regarding fuel supplied to ensure their own international road carriage, shall be repaid on the basis of the parity principle, if the conditions are observed that the foreign legal person:

1) is not registered in the State Revenue Service Register of Value Added Taxpayers;

2) is registered as a value added taxpayer in their country of domicile – the state where the person has registered its entrepreneurial activities;

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

4) is registered as a taxable person in a state where value added tax is applied (also an identical or essentially similar tax).

(2) The Cabinet, taking into account the requirements of Paragraph one of this Section, shall:

1) determine the procedures for the repayment 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 repayment of tax regarding fuel supplied.

[23 November 2000]

Section 12². Repayment of Value Added Tax to Foreign Legal Persons

(1) Foreign legal persons which are not registered in the Enterprise Register of the Republic of Latvia in respect of taxes paid for goods purchased and services received in the Republic of Latvia, shall be repaid on the basis of the parity principle, if the conditions are observed that the foreign legal person:

1) is not registered in the State Revenue Service Register of Value Added Taxpayers;

2) has registered the entrepreneurial activity in their country of domicile – the state in which value added tax is applied (also an identical or essentially similar tax), and is registered in their country of domicile as a value added tax taxable person; and

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

(2) The Cabinet, taking into account the requirements of Paragraph one of this Section, shall:

1) determine the procedures for the repayment 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 repayment of the tax.

[22 November 2001]

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.

(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) The 0 per cent tax rate shall be applied to services provided by tourism (travel) firms themselves to foreign tourists (persons whose permanent place of residence is not the Republic of Latvia).

(7) If services provided by tourism (travel) firms or agencies are provided both inland and outside the borders of the Republic of Latvia, the 0 per cent tax rate shall be applied only to that part of the services which is related to transactions outside the borders of the Republic of Latvia, unless otherwise set out in this Section.

[13 November 1997; 23 November 2000]

Section 13¹. 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; and
- 2) stock companies for agricultural production.

(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 assessment 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 purchases produce from farms for a value (without compensation) which is above or below the price of supply at which analogous produce is purchased 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 purchased or processed agricultural produce.

[13 November 1997; 23 November 2000]

Section 13². 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 purchased timber, only the tax which is set out in the timber transport bill of lading-invoice, if all the timber purchased during the assessment 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 purchased timber;

3) upon submitting, in accordance with the procedures prescribed by law, a value added tax declaration for an assessment period, the supplier of timber and the recipient of timber shall also submit an annex to the tax declaration. The form of the annex to the tax declaration shall be approved by the Cabinet, 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;

2) sawn timber of any length, sawn, planed or unplaned, 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 types of services and the procedures for the application of the tax shall be determined by the Cabinet.

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

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 purchased. The provisions of this Paragraph do not apply to fixed assets which have been purchased without paying turnover tax.
- (6) If the property of an undertaking – a taxable person – is sold by a bailiff enforcing a decision of a court, 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.

(7) 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

Section 15. 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 taxable value is concealed, or if the tax amount to be paid into the budget calculated in the tax declaration has been reduced, administrative sanctions shall be applied pursuant to the Law On Taxes and Fees.

(3) If a person has not registered with the State Revenue Service in accordance with 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 they 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 value added 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) [23 November 2000]

(6) If a taxable person who in importing fixed assets has not paid the tax in accordance with Section 12, Paragraph 2¹ of this Law, and within a period of one year from the time of importation has leased them or otherwise disposed of them, it 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.

[13 November 1997; 25 November 1999; 23 November 2000]

Section 16. Procedures for Reviewing Disputes

Disputes which arise regarding calculation of the tax shall be examined in accordance with law.

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

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

[15 April 1999]

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 lati 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.
- 10¹. 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 2¹ 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 2¹ and 2² 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 12¹ 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. Section 6, Paragraph one, Clause 20 of the Law On Value Added Tax shall be in force up to 31 December 2002.

17. Section 7, Paragraph 4¹ 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 13², Paragraph three of the Law On Value Added Tax shall come into force on 1 April 2002.

20. Section 6, Paragraph one, Clause 9, Clause 14, Sub-clause c) and Clause 15; Section 7, Paragraph 4¹ and Section 12¹ 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, Clauses 9¹ and 9²; Section 6¹ and Section 12² of the Law On Value Added Tax shall come into force on 1 January 2003.

22. The Cabinet shall up to 1 October 2002 issue the regulations provided for in Section 12² of this Law.

23. The Cabinet shall up to 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 10¹ of the Law On Value Added Tax shall be applicable also in relation to the repayment 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 repayment or direction to cover another tax, fee or mandatory payment.

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

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

Riga, 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.