

## New VAT rules about to enter into force

**In accordance with new EU legislation, new rules regarding VAT will enter into force in the Baltic States during the period December 2009-February 2010.**

### Facts

In February 2008, the EU adopted a VAT package, reforming certain parts of the current VAT regulations. The most significant changes are scheduled to be implemented in all EU member states already on 1 January 2010. However, the date of implementation in the Baltic States will vary from 1 December 2009 to 1 February 2010.

The VAT package enables more detailed monitoring of cross border provision of services. By doing so, the aim is to limit the VAT frauds within the EU. Furthermore, the VAT package is intended to create a more efficient system for refund of VAT. Below, the most important changes of the new rules will be described.

### Cross border supply of services

Under the current system, the main rule is that the place of supply is where the service provider is located. This will partly change under the new rules; when it comes to business to business provision of services, the place of supply will be where the receiver is established. This means that the receiver will account for the VAT at the local tax authorities. From this main rule, there are exceptions regarding services related to e.g. transportation, culture and real estate.

**Practically, the new main rule means that VAT in many cases does not have to be charged and consequently not refunded.**

When provided to non-business customers, the place of supply will remain to be the place where the service provider is established. Those main rules regarding the place of supply will also apply when services are provided from or to a country outside the EU.

The changes mean that many businesses will need to classify their customers as business or non-business customers. Also, as a consequence, the procedures for invoicing have to be amended.

### Administrative changes

Already under the current rules, there is a report obligation for cross border transactions of goods, i.e. the EC sales lists. When the new rules enter into force, cross border services provided to businesses will in addition be subject to such report obligation.

According to the new rules, cross border services provided to businesses must be listed in periodical reports submitted to the local tax authorities in the state where the service provider is established. Those reports shall be submitted electronically and account for the value for the provided services as well as VAT number of the receiver of the services.

### Refund of VAT – goods/services acquired from other EU states

One of the aims of the VAT package is to improve the system for refund of VAT paid in other EU states. Under the system currently in force, an application has to be sent to the tax authority in each member state from which VAT refund is claimed. This system has been considered rather burdensome and the new rules are formed to create a faster, easier and cheaper system.

According to the new rules, application for VAT refund shall be filed electronically with the tax authority in the member state where the applicant is established. The refund application shall be submitted to the Member State of



establishment at the latest on 30 September of the calendar year following the refund period. The refunding Member State shall notify the applicant of its decision to approve or refuse the refund application within four months of its receipt.

## **National implementation in the Baltic States** **Estonia**

On 11 November 2009, the *Riigikogu* passed new legislation, imposing changes to the Value Added Tax Act (Est: *Käibemaksuseadus*) as well as to the Taxation Act (Est: *Maksekorralduse seadus*). The changes will enter into force as of **1 January 2010** and implement the VAT package in full in Estonia. Domestic VAT transactions within Estonian will, however, not be affected by the new rules. Both the new report system and the new refund procedure will be accessible through the online facility e-Tax Board (Est: *e-maksuamet*).

## **Latvia**

On 10 November 2009, the *Saeima* passed new legislation, imposing changes to the Law on Value Added Tax (Lat: *Likums "Par pievienotās vērtības nodokli"*) as well as to the Law on Tax and Fees (Lat: *Likums "Par nodokļiem un nodevām"*). The changes entered into force on **1 December 2009**. The new system will be accessible through the electronic declaration system (Lat: *EDS - elektroniskās deklarēšanas sistēma*). The new legislation also amended the definition of VAT payers groups. VAT is not applicable for the internal transactions between the group members, and the tax shall be declared and paid only by one company within the group.

## **Lithuania**

On 24 November 2009, the *Seimas* approved new legislation, imposing changes to the Value Added Tax Act (LT.: *Pridėtinės vertės mokesčio įstatymas*). This law at the moment is not adopted since it is awaiting the president's signature. As planned, the changes will enter into force as of **1 February 2010** and imple-

ment the VAT package in full in Lithuania. The new rules will not influence the taxation of domestic VAT transactions within Lithuania. Both the new report system and the new refund procedure will be accessible through the online facility e-Tax administrator's system.

## **Further information**

For further information about the new VAT rules and its practical implications on your business, do not hesitate to contact us.

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