

# Key facts about proposed e-invoicing in Latvia

On 12 October 2021 the Cabinet of Ministers supported the Finance Ministry's informational report on setting up a system for electronic circulation of supporting documents and consignment documents with mandatory e-invoicing from 2025. E-invoicing is to be mandatory in transactions between businesses (B2B) as well as between businesses and government agencies (B2G) and this mandate is to cover transactions taking place in Latvia.

Amending the law and obtaining approval from the Cabinet of Ministers are the first key steps in this process.

Although nothing is set in stone just yet, it's very likely that the proposed e-invoicing obligation will be in line with the Finance Ministry's informational report. If the European Commission permits Latvia to derogate from the VAT directive and the Finance Ministry drafts the necessary legislative amendments, the e-invoicing obligation in Latvia will affect most Latvian companies **from 1 January 2025**.

We offer answers to frequently asked questions about the upcoming changes.



## 1 Why is Latvia adopting the e-invoicing obligation?

A key goal is to fight the shadow economy and reduce the Latvian VAT gap. Foreign examples demonstrate that the adoption of e-invoicing increases the amount of VAT paid to the government, improves VAT compliance, and reduces errors.

The circulation of structured e-invoices can help the tax authorities analyse and segment taxpayers to run tax controls and encourage voluntary payment of taxes. The adoption of e-invoicing will also give the tax authorities real-time insights into transactional data.

The increased digitalisation and resulting automation are expected to lead to greater efficiency and significant cost savings for Latvian businesses. According to the report, e-invoice processing costs are twice as low as the digitalisation and processing of paper invoices. Also, the adoption of e-invoicing offers other benefits, such as cash flow circulation, timely payments, and fewer errors.

Finally, the adoption of e-invoicing in Latvia should be viewed in the light of ongoing international developments and EU initiatives that introduce an EU-wide e-invoicing mandate and e-reporting obligations for cross-border transactions.

## 2 What does the e-invoicing mandate entail?

Issuing, sending and receiving structured e-invoices will be mandatory for most Latvian companies as well as for taxable persons established in another EU member state or in a third country or territory and registered for Latvian VAT that do business in Latvia. The e-invoicing mandate will apply to persons that are subject to the Accounting Act and the VAT Act.

According to the Finance Ministry's informational report, a structured Peppol invoice will become the default e-invoicing standard and all e-invoices will have to meet the European standard (EN 16931-1:2017 and CEN/TS 16931-2:2017).

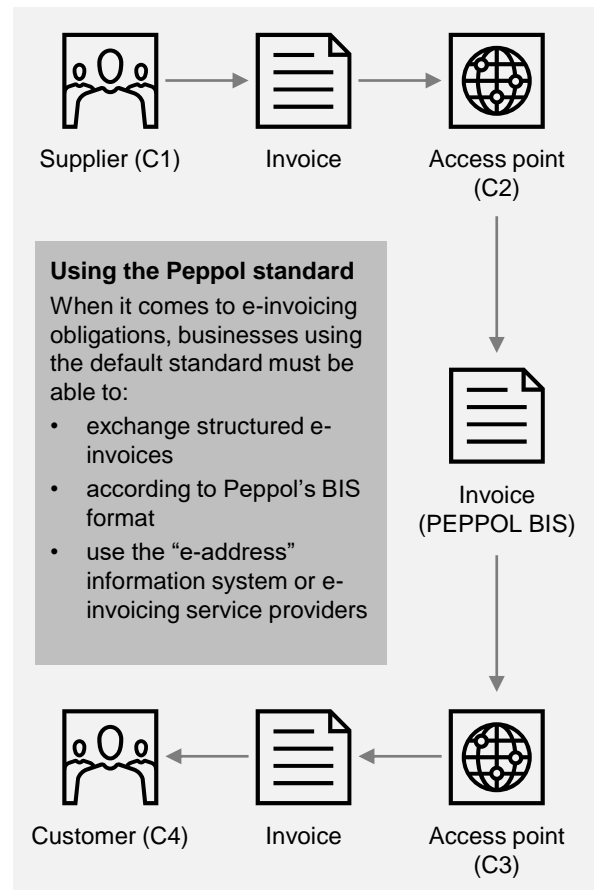
Invoicing in paper or other unstructured formats (such as PDF) will no longer be possible in transactions covered by the e-invoicing mandate. However, invoicing in paper or other unstructured formats will continue in transactions falling outside the scope of the e-invoicing mandate.

Peppol (Pan-European Public Procurement On-Line) is an international framework for e-procurement and e-invoicing. It facilitates the exchange of electronic business documents between trading partners by providing a common set of standards and protocols that allow businesses of all sizes and from different places to communicate effectively over the Peppol network.

Peppol uses a “four-corner” model to exchange documents and data, with data being transmitted through a secure network of approved participants called “access points”. The “four corners” in this model are the supplier (C1), the supplier’s access point (C2), the customer’s access point (C3) and the customer (C4). Once connected to the network, businesses can reach any other trading partner that is also connected to the network (“Connect once, connect to all”).

Recent years have seen Peppol’s adoption expand around the world, with several countries considering the e-invoicing mandate via Peppol. To date, millions of transactions (both B2B and B2G) are processed via the Peppol network each month.

In view of Latvia’s B2B e-invoicing mandate, businesses will need to decide how they will connect with their trading partners. Options include using Latvija.lv’s existing integration with the “e-address” or engaging an e-invoicing service provider.

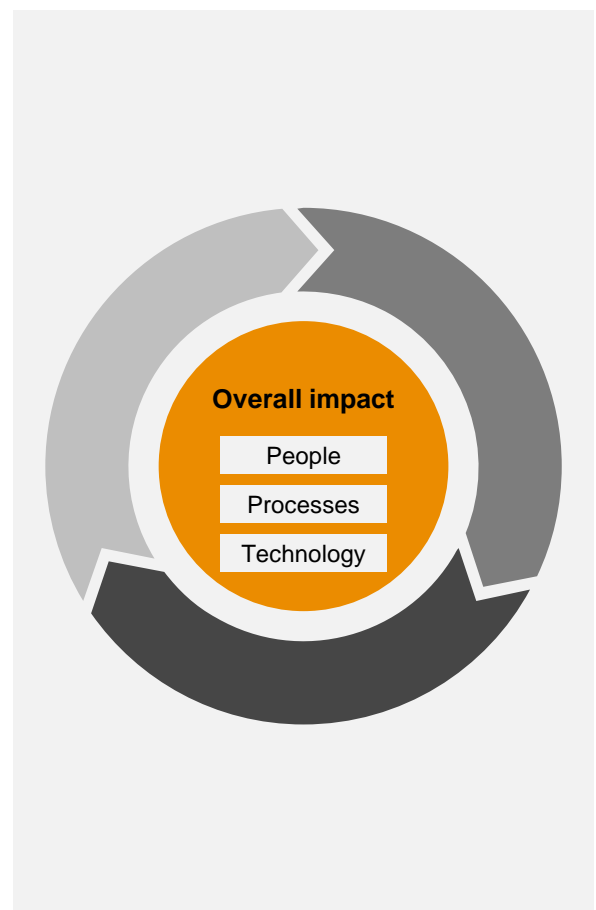


The impact these types of obligations have and the work that needs to be done are often underestimated, and the time available to make the required changes is usually overestimated. While the effective date of the e-invoicing mandate may still seem far away, preparations should start as soon as possible. Indeed, as the obligation will be rolled out in a “big bang”, resources may become scarce when the compliance deadline approaches.

Invoicing is crucial for business cash flows. People, processes and technology will have to adapt to the upcoming changes. Companies need to make sure they understand how these new obligations fit in with their business, and they need to draw up a plan for achieving readiness and compliance by 1 January 2025.

The upcoming changes will affect multiple teams in your organisation (Tax, Finance, IT, etc.) and significantly affect your existing processes and technology. If your adoption process is not managed properly, you may incur significant extra costs.

The significance of an e-invoicing process that meets VAT requirements cannot be overestimated. Failure to adopt e-invoicing may lead to significant sanctions and put your input tax recovery at risk.





## Country level

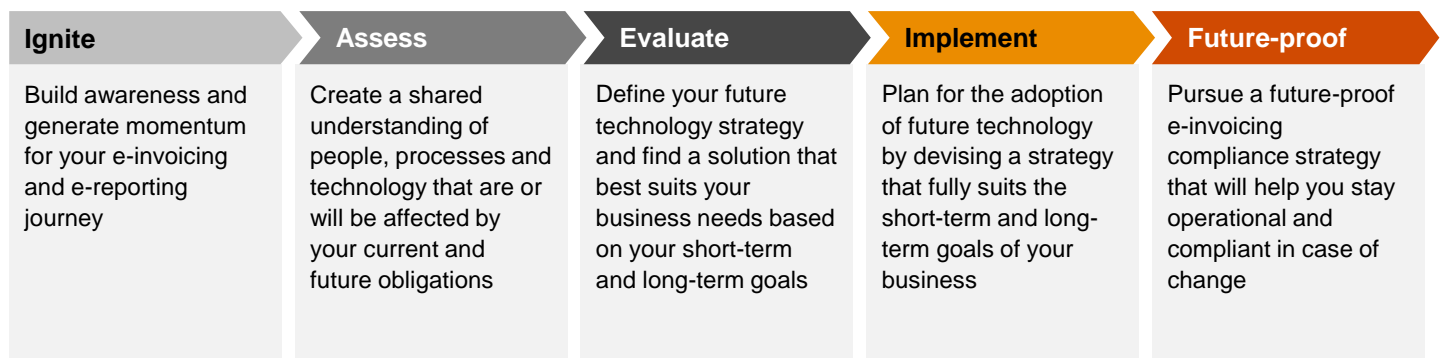
- To implement e-invoicing, Latvia will need a derogation from the EU VAT directive on the e-invoicing mandate.
- The Finance Ministry is to draft relevant amendments to the Accounting Act and to the VAT Act, as well as to other legislation if necessary, to implement the e-invoicing mandate from 2025.

## Organisation level

- Identify ways of engaging your current accounting system and other systems to implement e-invoicing
- Devise a plan for the adoption of e-invoicing to make sure you are ready and compliant by 1 January 2025
- Identify your staff competences and access to resources during the implementation
- Validate your accounting data to the Peppol e-invoicing standard
- Develop the architecture for your e-invoicing solution and achieve integration with the “e-address” or with an e-invoicing service provider
- Agree with your trading partners on e-invoicing channels and possibly amend your contracts
- Make sure your e-invoices are duly archived and can be converted into a human-readable format
- Revise or modify your paper invoicing process flow
- Other activities specific to each organisation

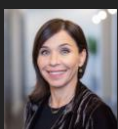


PricewaterhouseCoopers SIA can help you achieve impactful results by using our phased and modular approach. Fully tailored to your special needs and requirements, our assistance will provide effective solutions helping you grow your business and achieve long-term success.



## Contact details

To find out more about how the upcoming changes can affect you and how we can support you, please reach out to your regular PricewaterhouseCoopers SIA contact or the team listed below:

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