



Tax & Legal Highlights

Latvia

Latvia moves towards synchronization with OECD transfer pricing documentation standards

On April 24, the Cabinet of Ministers approved amendments to the law "On taxes and duties" that implement fundamental changes to Latvian transfer pricing compliance requirements.

Along the Country-by-country report, which is already mandated by the law "On taxes and duties", the new transfer pricing requirements bring the local legislation in line with the three-tiered approach to documenting controlled transactions implemented by BEPS Action 13 and the new iteration of the OECD Transfer Pricing Guidelines. After an approval from the Latvian parliament, the new compliance requirements will be applicable to controlled transactions carried out in reporting period starting on or after 1 January 2018.

The new transfer pricing requirements will no longer apply to taxpayers, who transact with companies that are exempt from CIT or employ CIT rebates.

Furthermore, mandatory documentation submission requirements come into force for taxpayers meeting the monetary thresholds mentioned herein.

Compulsory yearly submission to the tax authority Within 12 months after the end of the reviewed financial year		Compulsory yearly preparation within 12 months after the end of the reviewed financial year, submission is within 1 month after the request from tax authority	
Master file	Local file	Master file	Local file
 > 50m EUR  > 5m EUR or  > 15m EUR	 > 5m EUR	 > 5m EUR	 > 250t EUR

 Tax payer turnover
  Sum of related party transactions

For transactions that are carried out between two Latvian taxpayers who transact within a single supply chain with another related foreign company, or companies/persons located in offshore, the tax authority can request to prepare and submit the Local file in full or certain parts of it within 90 days. The submission date can be prolonged by 30 days if the taxpayer submits a motivated request to the tax authority.

Implementation of penalties for non-compliance

Along with the new requirements for transfer pricing documentation preparation, penalties for non-compliance with the new rules have also been implemented.

The amendments to the law “On taxes and duties” include a penalty of up to 1 percent (but no more than EUR 100,000) from the controlled transaction amount for which the documentation had to be prepared. It is intended that the penalty will apply in situations when the taxpayer does not comply with either the submission deadline or the content requirements which makes it impossible to verify the conformity to the arm’s length principle for the controlled transactions.

Introduction of APA roll-back option

Taxpayers craving certainty (insurance) with regard to previously conducted controlled transactions are now offered the roll-back option when concluding an Advance Pricing Agreement (APA) with the local tax administration.

Along the changes to the law “On taxes and duties” regarding transfer pricing compliance, a new provision has been included for taxpayers who crave some certainty with regard to the transfer pricing policies applied to controlled transactions carried out in prior years. It is now possible to enter into an Advanced Pricing Agreement (APA) with the local tax authority to verify the arm’s length nature of the transaction price for previous years if the controlled transaction amount exceeds EUR 1,430,000. It should be noted, however, that the amendments to the existing regulation for the introduction of APA roll-back option are subject to approval by the Latvian parliament.

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