



## WTS Global Country TP Guide

Last Update: December 2017

1. Legal Basis	
Is there a legal requirement to prepare TP documentation?	Yes
Since when does a TP documentation requirement exist in your country?	2006
Are TP policies of multinational enterprises in principle accepted by the tax authorities, if they are in line with the OECD TP Guidelines?	Yes
Which TP methods may be applied?	Five transfer pricing methods recommended by OECD – comparable uncontrolled price (CUP) method, resale price, cost-plus, transactional net margin method (TNMM) and profit split – are recognised. OECD Transfer Pricing Guidelines may be used for application of transfer pricing methods.
Are any TP methods preferred over others?	CUP, resale price and cost-plus methods are preferred over TNMM and profit split method.
Have the documentation requirements of OECD BEPS Action 13 already been implemented (i.e. the LF, MF and CbCR concepts)?	CbCR implemented; MF/LF-Draft
Reference to documentation and statements of local-government or tax authorities regarding OECD BEPS implementation status	CbCR is regulated by the Cabinet Regulations No.397 and Article 15.2 of the Taxes and Duties Act.
Reference to relevant articles of law, legislative regulation or applicable administrative guidance that are in place for TP documentation in general.	Article 15.2 of the Taxes and Duties Act.

2. Master File (MF)	
	Draft
What is the (consolidated revenue) threshold requirement for the obligation to prepare a MF?	<p>We currently have only draft project.</p> <p>Draft project determines that the company is required to prepare a Master File if one of the following thresholds is met:</p> <ol style="list-style-type: none"> <li>1) related-party transaction amount in the previous financial year exceeds EUR 15 million; or</li> <li>2) turnover in the previous financial year exceeds EUR 50 million and related-party transaction amount exceeds EUR 5 million.</li> </ol> <p>Master File must be prepared and submitted by taxpayers to SRS within 12 months after the end of financial year.</p> <p>Whereas, if the turnover in the previous financial year is below EUR 15 million but exceeds EUR 5 million Master File must be prepared within 12 months and submitted only upon SRS request. In this case taxpayer is obligated to file Master File within a month of receipt of the request from Latvian SRS.</p>
Euro Equivalent	EUR 50,000,000
As from which year does this obligation exist?	The obligation to prepare Master File exists for the year when the threshold is met.
When does the Master File need to be available?	Within 12 months after the end of the financial year when the threshold is met.

When does it need to be submitted?	<p>Draft project determines that the company is required to prepare a Master File if one of the following thresholds is met:</p> <p>1) related party transaction amount in the previous financial year exceeds EUR 15 million; or</p> <p>2) turnover in the previous financial year exceeds EUR 50 million and related party transaction amount exceeds EUR 5 million.</p> <p>Master File must be prepared and submitted by taxpayers to SRS within 12 months after the end of financial year.</p> <p>Whereas if the turnover in the previous financial year is below EUR 15 million but exceeds EUR 5 million Master File must be prepared within 12 months and submitted only upon SRS request. In this case taxpayer is obligated to file Master File within a month of receipt of the request from Latvian SRS.</p>
How and where should the MF be filed?	<p>Master File must be uploaded in Latvian State Revenue Service electronic declaration system (EDS).</p> <p>Please see the website address: <a href="https://eds.vid.gov.lv/login/">https://eds.vid.gov.lv/login/</a></p>
Does the MF have to be prepared in the relevant local language ?	No. If draft law will be implemented - the Master File can be prepared in English, but SRS may request a translation into Latvian.
Is documentation in English permissible?	Yes
What are the (possible) consequences of not having the required MF available?	Administrative penalty up to 1% from the transaction value.
What are the possible consequences of not having the MF available?	
Penalties?	Yes
Imprisonment?	No
Shifting of the burden of proof?	No
Other?	No
To which extent do the local rules differ from the OECD standard regarding the OECD content requirements for the MF as shown in the BEPS implementation overview chart?	The draft law includes Master File contents in line with OECD content requirements.

<b>3. Local File (LF)</b>	Draft
What is the threshold requirement for the obligation to prepare a LF?	<p>We currently have only draft project.</p> <p>Draft project determines that the company is required to prepare a Local File if:</p> <p>1) related party transaction amount in the previous financial year exceeds EUR 15 million; or</p> <p>2) turnover in the previous financial year exceeds EUR 50 million and related party transaction amount exceeds EUR 5 million; or</p> <p>3) related party transaction amount in the previous financial year exceeds EUR 5 million.</p> <p>Local File must be prepared and submitted by taxpayers to SRS within 12 months after the end of financial year.</p> <p>Whereas if the related party transaction amount in the previous financial year exceeds EUR 250 thousand but does not exceed EUR 5 million the Local File must be prepared within 12 months and submitted only upon SRS request. In this case taxpayer is obligated to file Local File within a month of receipt of the request from Latvian SRS.</p>
Euro Equivalent	EUR 50,000,000
As from which year does this obligation exist?	The obligation to prepare Local File exists for the year when the threshold is met.
When does the LF need to be available?	Within 12 months after the end of the financial year.

When does the LF need to be submitted?	<p>Draft project determines that the company is required to prepare a Local File if:</p> <ol style="list-style-type: none"> <li>1) related-party transaction amount in the previous financial year exceeds EUR 15 million; or</li> <li>2) turnover in the previous financial year exceeds EUR 50 million and related party transaction amount exceeds EUR 5 million; or</li> <li>3) related-party transaction amount in the previous financial year exceeds EUR 5 million.</li> </ol> <p>Local File must be prepared and submitted by taxpayers to SRS within 12 months after the end of financial year.</p> <p>Whereas if the related-party transaction amount in the previous financial year exceeds EUR 250 thousand but does not exceed EUR 5 million the Local File must be prepared within 12 months and submitted only upon SRS request. In this case taxpayer is obligated to file Local File within a month of receipt of the request from Latvian SRS.</p>
How and where should the LF be filed?	<p>Local File must be uploaded in Latvian State Revenue Service electronic declaration system (EDS). Please see the website address: <a href="https://eds.vid.gov.lv/login/">https://eds.vid.gov.lv/login/</a></p>
Does the LF have to be prepared in the relevant local language?	Yes
Or is documentation in English permissible?	No
What are the possible consequences of not having the LF available?	
Penalties?	Yes
Imprisonment?	No
Shifting of the burden of proof?	No
Other?	No
To which extent do local rules differ from the OECD standard regarding the OECD content requirements for the LF as shown in the 2017 OECD TP Guidelines?	Only minor differences.

<b>4. Country-by-Country Reporting</b>	Yes
What is the threshold requirement for the obligation to prepare Country-by-Country Reporting?	EUR 750 million - consolidated revenue in the previous financial year.
Euro Equivalent	EUR 750,000,000
As from which year does this CbCR obligation exist?	As from the year following the year that the threshold is met. • For primary reporting, CbCR is first to be prepared for fiscal years starting on 1 January 2016; • For secondary reporting, CbCR is first to be prepared for fiscal years starting on 1 January 2017. For the further taxation periods CbCR has to be prepared 12 months after the end of the taxation year.
When and how do the tax authorities need to be notified who the reporting entity is?	By the 31 of December or by the end of taxation period.
If the reporting entity (ultimate parent or surrogate parent) is in your country, what is the CbCR submission deadline?	12 months from the end of the fiscal year to which CbCR relates.
Are there any deviating submission deadlines for the secondary mechanism?	No
Does your country have a requirement that the financial figures of the group need to be aligned with?	No
Does your country have a requirement that the financial years of the group need to be aligned with?	No

Where is the CbCR to be submitted ?	CbCR must be submitted in Latvian State Revenue Service maintained electronic declaration system (EDS). Please see the website address: <a href="https://eds.vid.gov.lv/login/">https://eds.vid.gov.lv/login/</a>
How is the CbCR to be submitted, specifically, is there any prescribed standard?	The Cabinet Regulations No.397 provides Microsoft Word application form which has to be filled out. The application is divided in three parts, each part including different table to be filled out. It is planned that there will be a special template in the SRS EDS system to be filled-in as a CbC report.
What are the (possible) consequences of not having the required CbCR available?	Administrative penalty up to approx. EUR 7,000 (draft).
What are the possible consequences of not having the CbCR available?	
Penalties?	Yes
Imprisonment?	No
Shifting of the burden of proof?	No
Other?	No
To which extent do your local rules differ from the OECD standard regarding the content requirements for the CbCR as shown in the 2017 OECD TP Guidelines?	Consistent with OECD requirements
Did your country sign the Multilateral Competent Authority Agreement on the Exchange of CbC Reports ("CbC MCAA")?	Yes
Did your country enter into other information exchange agreements, such as on a bilateral basis?	Yes
Please specify the country involved and date the agreement came into force.	Tax related information exchange with Guernsey on 4 October 2013 and with Jersey on 13 December 2013.
Can a taxpayer in your country fulfil his CbCR requirement by referring to the reporting entity in the same or another country?	Yes

## 5. TP disclosure in tax return or transfer pricing specific returns

Does a taxpayer need to disclose information regarding TP documentation in his tax return?	No
When a taxpayer files a tax return for which he understands or should understand that the result reported in that tax return is too low due to incorrect transfer pricing, what could be the legal consequences?	In case of inadvertently filed tax return the taxpayer has to make corrections in the tax return and pay the mandatory taxes and related late payment penalty. However, if the taxpayer intentionally submits an incorrect tax return the administrative fine in total of EUR 700 applies. If tax authorities makes transfer pricing adjustment, the fine for understated tax is either 20% or 30% of the understated amount depending on the amount of tax underpaid. Additionally late payment penalty will apply at 0.05% per day. For tax evasion in large amount (exceeding EUR 19,000) imprisonment up to 4 years (up to 10 years if the crime is committed in an organised group), temporary imprisonment, forced labour, fine or confiscation of property may be sentenced.

<p>What could be the consequences for the tax advisor/accountant/administrator drafting and filing the tax return of a client where that advisor/accountant/administrator understands or should understand that the result reported is too low due to incorrect TP?</p>	<p>The tax advisor/accountant/administrator has to inform the client about incorrect transfer pricing calculations. However, the taxpayer is responsible for all the information it submits or any other person in his name submits to the tax authorities. If the taxpayer intentionally submits an incorrect tax return the administrative fine in total of EUR 700 applies. Additionally late payment penalty will apply at 0.05% per day.</p> <p>For tax evasion in large amount (exceeding EUR 19,000) imprisonment up to 4 years (up to 10 years if the crime is committed in an organised group), temporary imprisonment, forced labour, fine or confiscation of property may be sentenced.</p> <p>If the advisor understands or should understand that the taxpayer submits a tax return by which a tax evasion in large amount (exceeding EUR 19,000) is done then also the advisor may be charged for non-reporting of a crime. Such violation may be punished by imprisonment up to 2 years, temporary imprisonment, forced labour or a fine.</p>
<p>Does a taxpayer need to file TP-specific returns?</p>	<p>No</p>

<p><b>6. Benchmarking</b></p>	
<p>Is there any local guidance or requirement with regard to the preparation of a benchmark study?</p>	<p>No</p>
<p>Are there any materiality thresholds that apply for the requirement to have a benchmark study available?</p>	<p>No</p>
<p>Does your country apply the general guidance by the OECD to prepare a new benchmarking search every three years and an update of the financial data of the accepted comparable in year 2 or 3?</p>	<p>No</p>
<p>Or is a new search every three years without any financial updates in year 2 and 3 sufficient?</p>	<p>Yes. There are no strictly defined rules on preparation of a benchmarking study, however in general the tax administration allows to use the benchmarking study where comparable data is not older than 4 years.</p>

<p><b>7. Year-end adjustments</b></p>	
<p>Are year-end adjustments permissible?</p>	<p>Yes</p>
<p>Does the taxpayer have to comply with any specific features or guidance?</p>	<p>Yes. Taxpayer can make year-end adjustments in tax returns three years (to be extended to 5 years) after date of made tax payments set by law. However, this does not apply if tax administration has started the tax audit for relevant taxation period. Year-end adjustments can be also done by true-up invoicing in the last month of the taxation period.</p>

8. Transfer Pricing Audit and Dispute Resolution Mechanisms	
What are currently the main TP areas of scrutiny by the tax authorities in your country?	There are no specific areas in which tax authorities mainly carry out transfer pricing audits. Usually tax administration initiates a transfer pricing audit within the framework of other tax audit.
Based on your experience, are joint or multilateral audits initiated and carried out?	Yes
Does the taxpayer have the option to apply for bilateral or multilateral APAs?	No
Are there any restrictions?	Taxpayers whose annual turnover exceeds €1.43 million have the option to enter into an APA with the tax authority on determining the market price for a transaction or certain types of transaction with a related foreign company. Latvian tax authorities will reject the taxpayer's APA application if it is prepared based on incorrect and insufficient information as well as if the taxpayer does not provide information requested by the tax authorities.

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