

# Latvia

## Transfer Pricing Country Profile

December 2021

		SUMMARY	REFERENCE
<b>The Arm's Length Principle</b>			
1	<b>Does your domestic legislation or regulation make reference to the Arm's Length Principle?</b>	<input checked="" type="checkbox"/> <b>Yes</b> <input type="checkbox"/> <b>No</b>	<a href="#">Corporate income tax law</a> , Section 4 Paragraph 2 Subparagraph 2-e
2	<b>What is the role of the OECD Transfer Pricing Guidelines under your domestic legislation?</b>	<p>The OECD Transfer Pricing Guidelines are used as best practices and recommendations on dealing with the following transfer pricing issues:</p> <ul style="list-style-type: none"> <li>- How to apply transfer pricing methods;</li> <li>- How to make a functional analysis and comparable benchmark;</li> <li>- To promote the cooperation between taxpayers and tax administrations and to avoid double taxation;</li> <li>- To justify certain controlled transactions or commercial relations.</li> </ul>	<a href="#">Rules on application of the Corporate income tax law</a> (Cabinet of Ministers, 14.11.2017 Nr.677, valid from 01.01.2018), Section 19.
3	<b>Does your domestic legislation or regulation provide a definition of related parties? If so, please provide the definition contained under your domestic law or regulation.</b>	<input checked="" type="checkbox"/> <b>Yes</b> <input type="checkbox"/> <b>No</b>  <p>Related persons - two or more natural or legal persons (except for capital companies the relation of which constitutes capital shares or stocks that are directly owned by the State or a local government) or a group of such persons related under a contract, or representatives of such persons or group, provided that at least one of the following conditions has been met:</p> <ul style="list-style-type: none"> <li>a) they are parent and subsidiary commercial companies or co-operative societies;</li> <li>b) the share of holding of one commercial company or co-operative society in the other company is between 20 to 50 per cent, furthermore, this parent and subsidiary</li> </ul>	<a href="#">Law "On Tax and Duties"</a> Section 1, Point 18 <a href="#">Corporate income tax law</a> Section 4, Paragraph 10

commercial company or co-operative society does not have a majority of votes. This Sub-clause shall not refer to the determination of the conditionally distributed profits in accordance with Section 4, Paragraph two, Clause 2, Sub-clause "e" of the Corporate Income Tax Law, except for the case when a transaction is conducted with a related foreign enterprise;

c) more than 50 per cent of the share capital or the value of the shares of the commercial company or co-operative society in each of these two or more commercial companies or co-operative societies is held or a decisive influence is ensured, by contract or otherwise, in these two or more commercial companies or co-operative societies (there is a majority of votes) by one and the same person and the kin of this person to the third degree or the spouse of this person, or the affines of this person to the second degree;

d) more than 50 per cent of the share capital or the value of the shares of the commercial company or co-operative society in each of these two or more commercial companies or co-operative societies is held or a decisive influence is ensured, by contract or otherwise, in these two or more commercial companies or co-operative societies (there is a majority of votes) by several, however, not more than 10 one and the same persons;

e) more than 50 per cent of the share capital or the value of the shares of the commercial company or co-operative society in each of these two or more commercial companies or co-operative societies is held or by contract or otherwise a decisive influence is in these two or more commercial companies or co-operative societies (there is a majority of votes) by a commercial company or co-operative society in which a natural person (or the kin of this person to the third degree or the spouse of this person, or the affines of this person to the second degree), hold more than 50 per cent of the share capital of these companies or value of shares;

f) one and the same person or one and the same persons have a majority of votes on the boards of directors (executive bodies) of these commercial companies or co-operative societies;

g) in addition to a contract for a specific transaction in any form, these persons have entered into an agreement (including an agreement which has not been made public) providing for any additional remuneration not laid down in the contract or such commercial companies or co-operative societies engage in other forms of coordinated activities with a view to reducing their taxes;

h) a natural person (or his or her relatives to the third degree or spouse, or those in affinity with such natural person to the second degree) directly or indirectly owns more than 50 per cent of the value of the equity capital or shares of a commercial company or of the value of co-operative shares of a co-operative society, or a natural person (or his or her relatives to the third degree or spouse, or those in

		<p>affinity with such person to the second degree) whose decisive influence has been ensured on a commercial company or co-operative society under a contract or otherwise.</p> <p>Upon calculating the conditionally distributed profits of the taxpayers, a transaction with a person who is located, set up or established in a low-tax or tax-free jurisdiction shall be considered a transaction with a related person.</p>													
<b>Transfer Pricing Methods</b>															
4	<p><b>Does your domestic legislation provide for transfer pricing methods to be used in respect of transactions between related parties?</b></p>	<p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p>If affirmative, please check those provided for in your legislation:</p> <table border="1"> <thead> <tr> <th>CUP</th> <th>Resale Price</th> <th>Cost Plus</th> <th>TNMM</th> <th>Profit Split</th> <th>Other (<i>If so, please describe</i>)</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;"><input checked="" type="checkbox"/></td> <td style="text-align: center;"><input checked="" type="checkbox"/></td> <td style="text-align: center;"><input checked="" type="checkbox"/></td> <td style="text-align: center;"><input checked="" type="checkbox"/></td> <td style="text-align: center;"><input checked="" type="checkbox"/></td> <td style="text-align: center;"><input type="checkbox"/></td> </tr> </tbody> </table> <p>The price of transactions is determined by using economic analyses techniques.</p>	CUP	Resale Price	Cost Plus	TNMM	Profit Split	Other ( <i>If so, please describe</i> )	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<p><a href="#">Rules on application of the Corporate Income Tax Law</a> (Cabinet of Ministers, 14.11.2017 Nr.677, valid from 01.01.2018), Section 9, 13-17.</p>
CUP	Resale Price	Cost Plus	TNMM	Profit Split	Other ( <i>If so, please describe</i> )										
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>										
5	<p><b>Which criterion is used in your jurisdiction for the application of transfer pricing methods?</b></p>	<p>Please check all that apply:</p> <p><input type="checkbox"/> Hierarchy of methods</p> <p><input checked="" type="checkbox"/> Most appropriate method</p> <p><input type="checkbox"/> Other (<i>if so, please explain</i>)</p> <p>The most appropriate method is chosen taking into account the functions and risks, available trustworthy information and level of comparable transaction or unrelated person's financial information including comparability adjustments.</p>	<p><a href="#">Rules on application of the Corporate Income Tax Law</a> (Cabinet of Ministers, 14.11.2017 Nr.677, valid from 01.01.2018), Section 8</p>												
6	<p><b>If your domestic legislation or regulations contain specific guidance on commodity transactions, indicate which of the following approaches is followed.</b></p>	<p><input type="checkbox"/> For controlled transactions involving commodities, the guidance contained in paragraphs 2.18-2.22 of the TPG is followed.</p> <p><input type="checkbox"/> Domestic legislation mandates the use of a specific method for controlled transactions involving commodities (<i>if so, please explain</i>)</p> <p><input checked="" type="checkbox"/> Other (<i>if so, please explain</i>)</p>	<p><a href="#">Rules on application of the Corporate Income Tax Law</a> (Cabinet of Ministers, 14.11.2017 Nr.677, valid from 01.01.2018), Section 13 point 1.</p>												

		In general, domestic legislation does not empower to apply commodity quoted prices as arm's length prices. The commodity quoted prices cannot be used as arm's length prices because there is no evidence of transactions being concluded.	
<b>Comparability Analysis</b>			
7	<b>Does your jurisdiction follow (or largely follow) the guidance on comparability analysis outlined in Chapter III of the TPG?</b>	<input checked="" type="checkbox"/> <b>Yes</b> <input type="checkbox"/> <b>No</b>  The guidance in Chapter III can be used for purpose of application of transfer pricing method.	<a href="#">Rules on application of the Corporate Income Tax Law</a> (Cabinet of Ministers, 14.11.2017 Nr.677, valid from 01.01.2018), Section 11,12 and 19.
8	<b>Is there a preference in your jurisdiction for domestic comparables over foreign comparables?</b>	<input checked="" type="checkbox"/> <b>Yes</b> <input type="checkbox"/> <b>No</b>  Domestic comparables, if appropriate to the controlled transaction, reflect closer the geographic market comparability factors and are more reliable.	<a href="#">Rules on application of the Corporate Income Tax Law</a> (Cabinet of Ministers, 14.11.2017 Nr.677, valid from 01.01.2018), Section 11 point 1.
9	<b>Does your tax administration use secret comparables for transfer pricing assessment purposes?</b>	<input type="checkbox"/> <b>Yes</b> <input checked="" type="checkbox"/> <b>No</b>	
10	<b>Does your legislation allow or require the use of an arm's length range and/or statistical measure for determining arm's length remuneration?</b>	<input type="checkbox"/> <b>Yes</b> <input checked="" type="checkbox"/> <b>No</b>  Guidance in paragraph 3.55-3.62 of the TPG is widely used; however, the current practice of the tax administration is to look at statistical measures regarded as more critical.	
11	<b>Are comparability adjustments required under your domestic legislation or regulations?</b>	<input checked="" type="checkbox"/> <b>Yes</b> <input type="checkbox"/> <b>No</b>  Comparability adjustments are required if the selected unrelated party or transaction have comparability issues with the tested party or transactions.	<a href="#">Rules on application of the Corporate Income Tax Law</a> (Cabinet of Ministers, 14.11.2017 Nr.677, valid from 01.01.2018), Section 8.3. and section 12.3.2.

Intangible Property			
12	Does your domestic legislation or regulations contain guidance specific to the pricing of controlled transactions involving intangibles?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	<a href="#">Rules on application of the Corporate Income Tax Law</a> (Cabinet of Ministers, 14.11.2017 Nr.677, valid from 01.01.2018), Section 19.
	Latvian domestic legislation does not contain specific guidance on the pricing of controlled transactions involving intangibles and tends to rely on the OECD TPG.		
13	Does your domestic legislation or regulation provide for transfer pricing rules or special measures regarding hard-to-value intangibles (HTVI)?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	<a href="#">Rules on application of the Corporate Income Tax Law</a> (Cabinet of Ministers, 14.11.2017 Nr.677, valid from 01.01.2018), Section 19.1.
14	Are there any other rules outside transfer pricing rules that are relevant for the tax treatment of transactions involving intangibles?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	<a href="#">Rules for the Application of the Law on Annual Reports and Consolidated Annual Reports</a> , Chapter 9
	International standards or guidance on evaluation of intangible assets, if applicable to a particular case.  Also, the rules for the application of the Law on annual report and consolidated annual reports.		
Intra-Group Services			
15	Does your domestic legislation or regulations provide guidance specific to intra-group services transactions?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	<a href="#">Rules on application of the Corporate Income Tax Law</a> (Cabinet of Ministers, 14.11.2017 No.677, valid from 01.01.2018), Section 18 <sup>1</sup> to 18 <sup>9</sup> .  <a href="#">Transfer Pricing Documentation and Procedures for Concluding an Advance Agreement Between a Taxpayer and Tax Administration on Determination of the Arm's Length Price (Value) for a Transaction or Type of Transactions</a> (Cabinet of Ministers 18.12.2018 No. 802, valid from 21.12.2018), Section 4.
	Latvian domestic legislation contain guidance specific for low value-adding intra-group services in line with the OECD TPG.		

16	<b>Do you have any simplified approach for low value-adding intra-group services?</b>	<input checked="" type="checkbox"/> <b>Yes</b>	See Legal Reference in question 15.
		<input type="checkbox"/> <b>No</b>	
		Simplified determination of transfer prices and simplified transfer pricing documentation in line with the OECD TPG.	
17	<b>Are there any other rules outside transfer pricing rules that are relevant for the tax treatment of transactions involving services?</b>	<input checked="" type="checkbox"/> <b>Yes</b>	<a href="#">Corporate income tax law</a> , Section 5 Paragraph 1 Subparagraph 1
		<input type="checkbox"/> <b>No</b>	
		Withholding tax (20%) on management and consultation services.	
<b>Financial Transactions</b>			
18	<b>[NEW] Does your domestic legislation or regulations provide guidance specific to financial transactions?</b>	<input checked="" type="checkbox"/> <b>Yes</b>	<a href="#">Informative material</a> “Transfer pricing documentation” in Latvian.
		<input type="checkbox"/> <b>No</b>	
		The State Revenue Service of the Republic of Latvia has created informative material for taxpayers to use for the creation of the transfer pricing documentation in line with the OECD Guidance on Financial Transactions.	
19	<b>[NEW] Are there any other rules outside transfer pricing rules that are relevant for the tax treatment of financial transactions?</b>	<input checked="" type="checkbox"/> <b>Yes</b>	<a href="#">Corporate income tax law</a> , Section 10
		<input type="checkbox"/> <b>No</b>	
		Latvia has rules concerning thin capitalisation.	
<b>Cost Contribution Agreements</b>			
20	<b>Does your jurisdiction have legislation or regulations on cost contribution agreements?</b>	<input type="checkbox"/> <b>Yes</b>	<a href="#">Rules on application of the Corporate Income Tax Law</a> (Cabinet of Ministers, 14.11.2017 Nr.677, valid from 01.01.2018), Section 19.
		<input checked="" type="checkbox"/> <b>No</b>	
		Latvian domestic legislation does not contain specific guidance on Cost Contribution Agreements and tends to rely on the OECD TPG.	

## Transfer Pricing Documentation

21	<p><b>Does your legislation or regulations require the taxpayer to prepare transfer pricing documentation?</b></p>	<p><input checked="" type="checkbox"/> <b>Yes</b></p> <p><input type="checkbox"/> <b>No</b></p> <p><i>If affirmative, please check all that apply:</i></p> <ul style="list-style-type: none"> <li><input checked="" type="checkbox"/> Master file consistent with Annex I to Chapter V of the TPG</li> <li><input checked="" type="checkbox"/> Local file consistent with Annex II to Chapter V of the TPG</li> <li><input checked="" type="checkbox"/> Country-by-country report consistent with Annex III to Chapter V of the TPG</li> <li><input type="checkbox"/> Specific transfer pricing returns (separate or annexed to the tax return)</li> <li><input type="checkbox"/> Other (specify):</li> </ul>	<p><a href="#">Law “On Tax and Duties”</a> Section 15.<sup>2</sup>.</p> <p><a href="#">Transfer Pricing Documentation and Procedures for Concluding an Advance Agreement Between a Taxpayer and Tax Administration on Determination of the Arm’s Length Price (Value) for a Transaction or Type of Transactions”</a> (Cabinet Regulation No.802, valid from 21.12.2018)</p> <p><a href="#">Regulations Regarding Country-by-Country Report</a> of Multinational Enterprise Group</p>
22	<p><b>Please briefly explain the relevant requirements related to filing of transfer pricing documentation (i.e. timing for preparation or submission, languages, etc.)</b></p>	<p>The threshold for submission of the local file is EUR 5 000 000 transaction value with foreign related companies. The threshold for the master file is EUR 15 000 000 transaction value with foreign related companies or EUR 5 000 000 transaction value with foreign related companies and a turnover of EUR 50 000 000. If the company reaches or exceeds these thresholds, they are obliged to submit the local file or local file and master file 12 months after the end of the relevant reporting year.</p> <p>In addition, the taxpayers shall, in relation to the controlled transactions conducted with foreign related companies within the relevant reporting year, draw up within 12 months after the end of the relevant reporting year and, if required by the tax administration, submit the local file within a month after the request if the transaction is between EUR 250 000 to EUR 5 000 000. The Master file will be submitted if the net turnover of the taxpayer does not exceed EUR 50 000 000 and the amount of the controlled transactions with foreign related companies is between EUR 15 000 000 to EUR 5 000 000.</p> <p>The global documentation, consisting of Master file and CbCR, must be drawn up in Latvian or English. If the global documentation is drawn up in English, the tax administration has the right to request a translation of the entire documentation or part thereof in Latvian. The local documentation must be drawn up in Latvian.</p>	<p><a href="#">Law “On Tax and Duties”</a>, Section 15.<sup>2</sup>.</p>
23	<p><b>Does your legislation provide for specific transfer pricing penalties</b></p>	<p><input checked="" type="checkbox"/> <b>Yes</b></p> <p><input type="checkbox"/> <b>No</b></p>	<p><a href="#">Law “On Tax and Duties”</a>, Section 15.<sup>2</sup> Paragraph 14</p>

	<b>and/or compliance incentives regarding transfer pricing documentation?</b>	The tax administration has the right to impose a fine on the taxpayer of up to one percent of the amount corresponding with the controlled transaction (in respect of which there is an obligation to draw up the transfer price documentation) which shall be indicated in the taxpayer's revenue or expenditure of the reporting year in the relevant reporting period, but not more than EUR 100 000 if the taxpayer has failed to comply with the deadline for the submission of the transfer price documentation referred to in this Section, as well as if the taxpayer has seriously violated the requirements for drawing up the transfer price documentation provided for in laws and regulations (the required information has not been indicated), and therefore when examining the transfer price documentation it is impossible to ascertain whether the price (value) of the conducted transaction has been determined according to the market price (value).	
24	<b>If your legislation provides for exemption from transfer pricing documentation obligations, please explain.</b>	The exemption of submitting local and master files exists for those taxpayers that do not meet the threshold in the transaction value with foreign related companies and net turnover threshold mentioned in the response to Question 22.	
<b>Administrative Approaches to Avoiding and Resolving Disputes</b>			
25	<b>Which mechanisms are available in your jurisdiction to prevent and/or resolve transfer pricing disputes?</b>	<p>Please check those that apply:</p> <ul style="list-style-type: none"> <li><input checked="" type="checkbox"/> Rulings</li> <li><input type="checkbox"/> Enhanced engagement programs</li> <li><input checked="" type="checkbox"/> Advance Pricing Agreements (APA) <ul style="list-style-type: none"> <li><input checked="" type="checkbox"/> Unilateral APAs</li> <li><input checked="" type="checkbox"/> Bilateral APAs</li> <li><input checked="" type="checkbox"/> Multilateral APAs</li> </ul> </li> <li><input checked="" type="checkbox"/> Mutual Agreement Procedures</li> <li><input checked="" type="checkbox"/> Other (<i>please specify</i>): Cross-Border Dialog</li> </ul> <p>The taxpayers can request the tax administration to issue a binding ruling which explains the regulation according to the described facts of the situation of the taxpayer.</p> <p>According to the regulation, the taxpayer is able to apply for an APA. The duration of an APA can be up to 5 years. Taxpayers are allowed a rollback for up to 5 years.</p>	<p><a href="#">Transfer Pricing Documentation and Procedures for Concluding an Advance Agreement Between a Taxpayer and Tax Administration on Determination of the Arm's Length Price (Value) for a Transaction or Type of Transactions.</a></p> <p><a href="#">Law "On Tax and Duties", Section 119, 120 and 133</a></p> <p><a href="#">Latvia's MAP Profile</a></p>



		<p>Bilateral or multilateral APAs can be started in Latvia, with taxpayer expressing clear request that he would want to start such an APA, provided that the relevant treaty contains a provision equivalent to Article 25(3) of the OECD Model Tax Convention (OECD, 2017) or providing that the Convention on Mutual Administrative Assistance in Tax Matters applies between the parties.</p> <p>MAP is regulated by the Law on Taxes and Duties. Also, the Latvian State Revenue Service has created Methodological Material on Elimination of Double Taxation to Profits and Capital of Enterprises, as well as, Methodological Material on Dispute Resolution under a Mutual Agreement Procedure with Non-EU Countries. In addition, all of this information is provided in the MAP profile.</p>	
<b>Safe Harbours and Other Simplification Measures</b>			
26	<p><b>Does your jurisdiction have rules on safe harbours in respect of certain industries, types of taxpayers, or types of transactions?</b></p>	<p><input checked="" type="checkbox"/> <b>Yes</b></p> <p><input type="checkbox"/> <b>No</b></p> <p>There is regulation regarding the low value-added intra-group services which regulates the classification of those services and what mark-up should be used for these services.</p> <p>There is one safe harbour regarding the taxpayer that does not have the duty to automatically submit local transfer pricing documentation but who has the duty to prepare local transfer pricing documentation. This taxpayer, if the situation affecting the transfer pricing methodology has not significantly changed, has the right to review local transfer pricing documentation every three years. In any case, the comparable financial data must be reviewed every year.</p>	<p><a href="#">Rules on application of the Corporate Income Tax Law</a> (Cabinet of Ministers, 14.11.2017 Nr.677, valid from 01.01.2018), Section 18.<sup>1</sup>.</p> <p><a href="#">Law “On Tax and Duties”</a>, Section 15.<sup>2</sup></p>
27	<p><b>Does your jurisdiction have any other simplification measures not listed in this questionnaire? If so, please provide a brief explanation.</b></p>	<p><input type="checkbox"/> <b>Yes</b></p> <p><input checked="" type="checkbox"/> <b>No</b></p>	
<b>Other Legislative Aspects or Administrative Procedures</b>			
28	<p><b>Does your jurisdiction allow/require taxpayers to make year-end adjustments?</b></p>	<p><input checked="" type="checkbox"/> <b>Yes</b></p> <p><input type="checkbox"/> <b>No</b></p> <p>Latvia does not have specific regulation on year-end-adjustments, but allows them in accordance with the general rules on the arm’s length principle.</p>	<p><a href="#">Corporate income tax law</a>, Section 4, Paragraph 2, Clause 2, sub-paragraph e)</p>

29	Does your jurisdiction make secondary adjustments?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
<b>Attribution of Profits to Permanent Establishments</b>			
30	<b>[NEW]</b> Does your jurisdiction follow the Authorised OECD Approaches for the attribution of profits to PEs (AOA)?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No In 62 tax treaties.	<a href="#">Latvian tax treaties</a> or <a href="#">Latvian tax treaties (English)</a>
31	<b>[NEW]</b> Does your jurisdiction follow also another approach?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No Latvia has reserved the right to use the previous version of Article 7, i.e. the version that was included in the Model Tax Convention immediately before the 2010 update of the Model Tax Convention, subject to its positions on that version (see the Annex to the Non-OECD Economies' Positions on Article 7).	
<b>Other Relevant Information</b>			
32	<b>Other legislative aspects or administrative procedures regarding transfer pricing</b>	N/A	
33	<b>Other relevant information</b> (e.g. <i>whether your jurisdiction is preparing new transfer pricing regulations, or other relevant aspects not addressed in this questionnaire</i> )	N/A	

For more information, please visit: <https://oe.cd/transfer-pricing-country-profiles>