

Latvia

Transfer Pricing Country Profile

Updated October 2017

	SUMMARY	REFERENCE
The Arm's Length Principle		
1	<p>Does your domestic legislation or regulation make reference to the Arm's Length Principle?</p> <p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p>	<p>The law "On enterprise income tax" valid until 31.12.2017, Section 12.</p> <p>https://likumi.lv/doc.php?id=34094</p> <p>Enterprise income tax law as from 01.01.2018, Section 4 Paragraph 2 Subparagraph 2-e</p> <p>https://likumi.lv/ta/id/292700-uznemumu-ienakuma-nodokla-likums</p> <p>(for English version chose section "Tulkojums")</p>
2	<p>What is the role of the OECD Transfer Pricing Guidelines under your domestic legislation?</p> <p>TPG can be used for purpose of application of transfer pricing method.</p> <p>Current and planned legislation (which will come into force from 01.01.2018) contains discretion to use TPG for application of TP methods prescribed in national legislation.</p> <p>The principle of supremacy of law does not provide application of TPG directly. however, Latvia is following recommendation of Council of OECD [C(95) 126/Final] which was a base when drafting current and planned legislation.</p>	<p>Rules on application of the law "On enterprise income tax" (Cabinet of Ministers, 04.07.2006 Nr.556, valid until 31.12.2017), Section 93.</p> <p>https://likumi.lv/doc.php?id=139741</p>
3	<p>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.</p> <p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p>	<p>The law "On enterprise income tax" valid until 31.12.2017, Section 1 Paragraph 3.</p> <p>https://likumi.lv/doc.php?id=34094</p> <p>(for English version chose section "Tulkojums")</p>

		<p>Affiliated undertakings/related parties/associated enterprises - two or more commercial companies or co-operative societies if:</p> <ol style="list-style-type: none"> 1) they are parent and subsidiary undertakings; 2) the participatory share of one commercial company or co-operative society in another commercial company or co-operative society is 20 to 50 per cent and, in addition, such company does not have a majority vote; 3) more than 50 per cent of the value of equity capital, shares or co-operative shares in each of these two or more of these commercial companies or co-operative societies (or commercial company and co-operative society) is owned by or is ensured by a contract or otherwise a decisive influence over these two or more commercial companies or co-operative societies (or commercial company and co-operative society) to: <ol style="list-style-type: none"> a) one and the same person or relatives of such person to the third degree or the spouse of such person, or those in affinity with such person to the second degree, b) more than one, but, not more than 10, one and the same persons, c) a commercial company or co-operative society wherein the natural person (or his or her relatives to the third degree or spouse, or those in affinity with such person to the second degree) owns directly or indirectly more than 50 per cent of the value of the equity capital, shares of such commercial company or the value of the co-operative society co-operative shares; 4) one and the same person or one and the same persons have a majority vote in the administrative institutions of such commercial companies or co-operative societies (or commercial company and co-operative society); <p>in addition to a contract regarding a specific transaction, an agreement in any form has been entered into (including an agreement that has not been made public) between these commercial companies or co-operative societies (or commercial company and co-operative society) regarding whatsoever additional remuneration not foreseen in the contract, or also such companies perform other types of concerted activities with intent to reduce taxes.</p>	<p>Law “On tax and duties” as from 01.01.2018, Section 1-18. https://likumi.lv/doc.php?id=33946 (for English version chose section “Tulkojums”)</p>
Transfer Pricing Methods			
4	<p>Does your domestic legislation provide for transfer pricing methods to be used in respect of transactions between related parties?</p>	<p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p>	<p>Rules on application of the law “On enterprise income tax” (Cabinet of Ministers, 04.07.2006 Nr.556, valid until 31.12.2017), Section 84 to 86, 88-89. https://likumi.lv/doc.php?id=139741</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 (If so, please describe)</th> </tr> </thead> <tbody> <tr> <td><input checked="" type="checkbox"/></td> <td><input checked="" type="checkbox"/></td> <td><input checked="" type="checkbox"/></td> <td><input checked="" type="checkbox"/></td> <td><input checked="" type="checkbox"/></td> <td><input type="checkbox"/></td> </tr> </tbody> </table>	CUP	Resale Price	Cost Plus	TNMM	Profit Split	Other (If so, please describe)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
CUP	Resale Price	Cost Plus	TNMM	Profit Split	Other (If so, please describe)										
<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>Which criterion is used in your jurisdiction for the application of transfer pricing methods?</p>	<p>Please check all that apply:</p> <p><input type="checkbox"/> Hierarchy of methods</p> <p><input type="checkbox"/> Most appropriate method</p> <p><input checked="" type="checkbox"/> Other (if so, please explain)</p>	<p>Rules on application of the law “On enterprise income tax” (Cabinet of Ministers, 04.07.2006 Nr.556, valid until 31.12.2017), Section 83, 87, 90-92.</p> <p>https://likumi.lv/doc.php?id=139741</p>												
		<p>Current domestic legislation depicts combination of both hierarchy of methods and most appropriate method, in practice the most appropriate method criterion is used. However, currently amendments to domestic law are in the process of preparation in the form of precision to emphasis on most appropriate method.</p>													
6	<p>If your domestic legislation or regulations contain specific guidance on commodity transactions, indicate which of the following approaches is followed.</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 (if so, please explain)</p> <p><input checked="" type="checkbox"/> Other (if so, please explain)</p>	<p>Rules on application of the law “On enterprise income tax” (Cabinet of Ministers, 04.07.2006 Nr.556, valid until 31.12.2017), Section 93.</p> <p>https://likumi.lv/doc.php?id=139741</p>												
		<p>Since in general domestic legislation does not empower to apply commodity quoted prices as arm’s length the latter can be used only as a market indicator, not as an evidence arm’s length price. Other transfer pricing methods should be applied in order to examine arm’s length conditions.</p>													
Comparability Analysis															
7	<p>Does your jurisdiction follow (or largely follow) the guidance on comparability analysis outlined in Chapter III of the TPG?</p>	<p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p>	<p>Rules on application of the law “On enterprise income tax” (Cabinet of Ministers, 04.07.2006 Nr.556, valid until 31.12.2017), Section 93.</p> <p>https://likumi.lv/doc.php?id=139741</p>												
		<p>The guidance in Chapter III can be used for purpose of application of transfer pricing method.</p>													

8	Is there a preference in your jurisdiction for domestic comparables over foreign comparables?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	Rules on application of the law “On enterprise income tax” (Cabinet of Ministers, 04.07.2006 Nr.556, valid until 31.12.2017), Section 93. https://likumi.lv/doc.php?id=139741
		Domestic comparables, if appropriate to controlled transaction, reflect closer the comparability factors and are more reliable. However, in practice foreign comparables are used in combination with domestic comparables.	
9	Does your tax administration use secret comparables for transfer pricing assessment purposes?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	
		Statistical data on loans and deposits collected by Central Bank of Latvia (Latvijas Banka) is used. Said data is used also by taxpayers for documentation purposes.	
10	Does your legislation allow or require the use of an arm’s length range and/or statistical measure for determining arm’s length remuneration?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	
		Guidance in paragraph 3.55-3.62 of TPG is widely used; however, current practice of tax administration is to look at statistical measures regarded as more critical.	
11	Are comparability adjustments required under your domestic legislation or regulations?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	Rules on application of the law “On enterprise income tax” (Cabinet of Ministers, 04.07.2006 Nr.556, valid until 31.12.2017), Section 92. https://likumi.lv/doc.php?id=139741
		Comparability adjustments are required, if material differences exist.	
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	
		Domestic legislation does not contain guidance specific to intangibles. However, Latvia follows TPG and general domestic rules of ALP are applicable.	
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	

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 1) international standards or guidance on evaluation of intangible assets, if applicable to particular case; 2) general enterprise corporate tax rules regulating determination of taxable amount.	The law “On enterprise income tax” valid until 31.12.2017, Section 6 Paragraph 1, Point 1; Section 6 Paragraph 1, Point 10; Section 6 Paragraph 4, Point 5; Section 13 Paragraph 4 and 5. https://likumi.lv/doc.php?id=34094 (for English version chose section “Tulkojums”)
Intra-group Services			
15	Does your domestic legislation or regulations provide guidance specific to intra-group services transactions?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No Domestic legislation does not contain guidance specific to intra-group services. However, Latvia follows TPG and general domestic rules of ALP are applicable.	
16	Do you have any simplified approach for low value-adding intra-group services?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
17	Are there any other rules outside transfer pricing rules that are relevant for the tax treatment of transactions involving services?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No Withholding tax on management and consultation services (10% until 31.12.2017; 20% as from 01.01.2018).	The law “On enterprise income tax” valid until 31.12.2017, Section 3 Paragraph 4, Point 2. https://likumi.lv/doc.php?id=34094 Enterprise income tax law as from 01.01.2018, Section 5 Paragraph 1 Subparagraph 1 https://likumi.lv/ta/id/292700-uznemumu-ienakuma-nodokla-likums (for English version chose section “Tulkojums”)
Cost Contribution Agreements			
18	Does your jurisdiction have legislation or regulations on cost contribution agreements?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	

Transfer Pricing Documentation

19	<p>Does your legislation or regulations require the taxpayer to prepare transfer pricing documentation?</p>	<p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p><i>If affirmative, please check all that apply:</i></p> <p><input type="checkbox"/> Master file consistent with Annex I to Chapter V of the TPG</p> <p><input type="checkbox"/> Local file consistent with Annex II to Chapter V of the TPG</p> <p><input checked="" type="checkbox"/> Country-by-country report consistent with Annex III to Chapter V of the TPG</p> <p><input checked="" type="checkbox"/> Specific transfer pricing returns (separate or annexed to the tax return)</p> <p><input checked="" type="checkbox"/> Other (specify): transfer pricing documentation which is consistent to Chapter V of the TPG (2010).</p>	<p>Law “On tax and duties” as from 01.01.2018, Section 15.²</p> <p>https://likumi.lv/doc.php?id=33946 (for English version chose section “Tulkojums”)</p> <p>Rules on country-by-country reports (Cabinet of Ministers, 04.07.2017 Nr.397, as from 14.07.2017)</p> <p>https://likumi.lv/ta/id/292196-noteikumi-par-starptautiskas-uznemumu-grupas-parskatu-par-katru-valsti</p> <p>Rules on enterprise income tax declaration and forward payments appraisal (Cabinet of Ministers, 25.09.2015 Nr.548, as from 01.01.2016) Annex II-2</p> <p>https://likumi.lv/ta/id/276841-noteikumi-par-uznemumu-ienakuma-nodokla-taksacijas-perioda-deklaraciju-un-avansa-maksajumu-aprekinu</p>
20	<p>Please briefly explain the relevant requirements related to filing of transfer pricing documentation (i.e. timing for preparation or submission, languages, etc.)</p>	<p>In general documentation should be prepared in Latvian in 30 days after request of tax administration. Documentation shall be kept 5 years.</p>	<p>Law “On tax and duties” as from 01.01.2018, Section 15.²</p> <p>https://likumi.lv/doc.php?id=33946</p> <p>(for English version chose section “Tulkojums”)</p>
21	<p>Does your legislation provide for specific transfer pricing penalties and/or compliance incentives regarding transfer pricing documentation?</p>	<p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p>In case a taxpayer does not submit documentation, tax administration shall determine price on the basis of information which is available to tax administration.</p>	<p>Law “On tax and duties” as from 01.01.2018, Section 15.²</p> <p>https://likumi.lv/doc.php?id=33946</p> <p>(for English version chose section “Tulkojums”)</p>
22	<p>If your legislation provides for exemption from transfer pricing documentation obligations, please explain.</p>	<p>If turnover is less than 1,43 mil. EUR and controlled transactions are less than 14,3 th. EUR.</p>	<p>Law “On tax and duties” as from 01.01.2018, Section 15.²</p> <p>https://likumi.lv/doc.php?id=33946</p> <p>(for English version chose section “Tulkojums”)</p>

Administrative Approaches to Avoiding and Resolving Disputes			
23	Which mechanisms are available in your jurisdiction to prevent and/or resolve transfer pricing disputes?	<p>Please check those that apply:</p> <p><input checked="" type="checkbox"/> Rulings</p> <p><input type="checkbox"/> Enhanced engagement programs</p> <p><input checked="" type="checkbox"/> Advance Pricing Agreements (APA)</p> <p style="padding-left: 20px;"><input checked="" type="checkbox"/> Unilateral APAs</p> <p style="padding-left: 20px;"><input checked="" type="checkbox"/> Bilateral APAs</p> <p style="padding-left: 20px;"><input type="checkbox"/> Multilateral APAs</p> <p><input checked="" type="checkbox"/> Mutual Agreement Procedures</p> <p><input checked="" type="checkbox"/> Other (<i>please specify</i>):</p> <p>Voluntary tax risks assessment in which taxpayers after adjustment risks presented by tax administration may adjust profits.</p>	<p>Administrative procedure law, Section 98-101 https://likumi.lv/doc.php?id=55567</p> <p>Law “On tax and duties” as from 01.01.2018, Section 15.² https://likumi.lv/doc.php?id=33946</p> <p>Law “On tax and duties” as from 01.01.2018, Section 15.² https://likumi.lv/doc.php?id=33946</p> <p>Article 25 of DTC, Arbitration Convention of EU.</p> <p>(for English version chose section “Tulkojums”)</p>
Safe Harbours and Other Simplification Measures			
24	Does your jurisdiction have rules on safe harbours in respect of certain industries, types of taxpayers, or types of transactions?	<p><input type="checkbox"/> Yes</p> <p><input checked="" type="checkbox"/> No</p>	
25	Does your jurisdiction have any other simplification measures not listed in this questionnaire? If so, please provide a brief explanation.	No.	
Other Legislative Aspects or Administrative Procedures			
26	Does your jurisdiction allow/require taxpayers to make year-end adjustments?	<p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p>According to Section 92 in general by making comparability adjustment or according to general rules applicable for Corporate tax declarations and adjustment of thereof, tax payers may make comparability adjustment which</p>	<p>Rules on application of the law “On enterprise income tax” (Cabinet of Ministers, 04.07.2006 Nr.556, valid until 31.12.2017), Section 92. https://likumi.lv/doc.php?id=139741</p>

		might result in transfer pricing adjustment in value (price), by decreasing or increasing tax applicable amount. The same is for transfer pricing adjustment which may be made for other reasons than comparability adjustment. The taxpayer may adjust its declaration in 3 years after tax due. Currently, it is planned to prolong the said term to 5 years which commensurate to 5 years of statutory limitations.	
27	Does your jurisdiction make secondary adjustments?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
Other Relevant Information			
28	Other legislative aspects or administrative procedures regarding transfer pricing		
29	Other relevant information (e.g. <i>whether your jurisdiction is preparing new transfer pricing regulations, or other relevant aspects not addressed in this questionnaire</i>)	Currently in our jurisdiction rules of application of transfer pricing methods, transfer pricing documentation, as well LVAS, HTVI and CCA are in the process of preparation.	