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Overview

COBALT, Taxand Latvia

Established in 1994, COBALT's Tax Practice stands out for its unparalleled depth of expertise, integrated Baltic-level approach, and a proven track record of successfully navigating complex tax matters for a diverse client portfolio. We provide comprehensive solutions grounded in a profound understanding of both tax and broader business law, ensuring robust protection of client interests across Energy, Real Estate, Fintech, and Manufacturing sectors.

Our tax team will assist with:

- Transfer pricing planning – Designing compliant transfer pricing structures for domestic and cross-border transactions.
- Transfer pricing documentation – Preparing and reviewing Master Files, Local Files, and benchmarking analyses.
- Intercompany agreements – Drafting and reviewing agreements supporting transfer pricing policies.
- Financial transactions – Advising on intra-group financing, guarantees, and cash pooling.
- Tax audits and disputes – Assisting in transfer pricing audits, controversy, and litigation.
- Advance Pricing Agreements "APAs" – Advising on and negotiating APAs with tax authorities.
- Business restructurings – Supporting transfer pricing aspects of reorganisations and M&A transactions.

General: Transfer Pricing Framework

Latvian transfer pricing rules are broadly aligned with the OECD Transfer Pricing Guidelines. They adopt the arm's length principle and implement the OECD three-tier documentation framework consisting of the Master File, Local File and Country-by-Country Report. In addition, from reporting years beginning in 2025, Latvia has introduced a separate Controlled Transactions Report. The main rules are contained in the Act on Taxes and Duties, the Corporate Income Tax Act and Cabinet Regulations No. 677 and 802.

In practice, the OECD materials are used as an interpretative reference.

Where the terms of a related-party transaction do not correspond to arm's length terms, the shortfall or surplus is treated as deemed distributed profit and included in the corporate income tax base.

Latvian transfer pricing documentation obligations mainly apply to transactions with related foreign parties, related individuals, persons in low-tax or tax-free jurisdictions, and certain related Latvian resident transactions where the transaction forms part of the same supply chain as a cross-border controlled transaction.

Accepted Transfer Pricing Methodologies

Although the OECD Transfer Pricing Guidelines are not All five transfer pricing methods included in the OECD Transfer Pricing Guidelines are accepted.

There is no strict hierarchy of methods. The most appropriate method should be selected based on the facts and circumstances of the transaction, including the functions performed, risks assumed, assets used and the availability of reliable comparable data.

A combination of methods may be used where this provides a more accurate arm's length result.

Transfer Pricing Documentation Requirements

Latvia applies the OECD three-tier transfer pricing documentation approach, consisting of the Country-by-Country Report "CbCR", the Master File and the Local File. For reporting years beginning in 2025, taxpayers meeting the statutory threshold are additionally required to submit a separate Controlled Transactions Report "CTR".

Country-by-Country Reporting

A CbCR is generally required where the multinational enterprise group's consolidated revenue for the preceding fiscal year exceeds EUR 750 million.

The Latvian ultimate parent entity, or another Latvian reporting entity where applicable, must submit the CbCR within 12 months after the last day of the reportable fiscal year. Where the Latvian entity is not the reporting entity, it may also have an obligation to notify the State Revenue Service of the identity and tax residence of the entity that will file the CbCR.

Master File documentation

A Master File is required where the total value of the taxpayer's relevant controlled transactions exceeds EUR 20 million during the reporting year.

The Master File contains information on the multinational enterprise group as a whole, including its organisational structure, business activities, intangible assets, intra-group financing, and consolidated financial and tax position.

The Master File must be prepared within 12 months after the end of the reporting year. It is submitted only upon request from the State Revenue Service "SRS" and must generally be provided within 30 days. It may be prepared in either Latvian or English, although the SRS may request a Latvian translation.

Local File documentation

A Local File is required where the total value of the taxpayer's relevant controlled transactions exceeds EUR 250,000 during the reporting year.

The Local File contains detailed information on the taxpayer, its business, material-controlled transactions, functional and comparability analyses, the selected transfer pricing method and supporting financial information.

The Local File must be prepared within 12 months after the end of the reporting year. It is generally submitted only upon request from the SRS and must be provided within 30 days. For certain chain transactions involving related Latvian residents, the submission deadline is 90 days following an SRS request. It may also be prepared in either Latvian or English, subject to the SRS requesting a Latvian translation.

TP documentation simplifications

Taxpayers providing qualifying low value-added services may prepare simplified transfer pricing documentation instead of a full Local File.

The simplified documentation should include, among other things, information on the parties, the services provided, the reasons why the services qualify as low value-added services, the expected economic benefit, the cost allocation methodology and the calculation of the service charge.

In addition, transactions with an individual annual value not exceeding EUR 90,000 may generally be omitted from the detailed transaction information, subject to the statutory conditions.

Controlled Transactions Report

For reporting years beginning in 2025 or later, taxpayers whose total value of relevant controlled transactions exceeds EUR 250,000 must submit a CTR.

The report must be filed electronically in a structured format within 12 months after the end of the reporting year. It includes transaction-level information such as the transaction type, direction, value, counterparty, transfer pricing method, tested party, source of comparable data and the selected arm's length indicator.

Local Jurisdiction Benchmarks

A benchmarking analysis is generally required as part of the Local File where a transfer pricing method requires comparable uncontrolled transactions. The Local File must include details of the benchmarking methodology, including the search strategy, selection criteria, comparable transactions or companies, reasons for accepting or rejecting potential comparables, comparability adjustments and the supporting financial information.

Latvian legislation does not prescribe a preference for local, regional or pan-European comparables. In practice, taxpayers generally use the most reliable comparable data available, depending on the nature of the transaction and the availability of suitable comparables.

Both internal and external comparable uncontrolled transactions are recognised under the Latvian transfer pricing rules. Under the Comparable Uncontrolled Price Method, the price in a controlled transaction may be compared with the price in an internal comparable transaction, an external comparable transaction or, where sufficiently comparable, publicly available information on external prices.

Latvian legislation does not prescribe preferred transfer pricing methods in practice. The most appropriate method should be selected based on the facts and circumstances of the transaction.

Benchmarking analyses are part of the Local File and must be supported by search methodology, selection criteria, reasons for accepting or rejecting comparables and comparability adjustments. The Local File is submitted to the SRS upon request, so benchmarking support should be prepared in a form that can withstand review.

Focus on Financial Transactions

Financial transactions between related parties must comply with the arm's length principle.

For loan transactions, the arm's length analysis should not be limited to the interest rate. The transaction should also be assessed taking into account the amount of the financing and the terms and conditions of the loan.

For transfer pricing documentation purposes, the value of a controlled loan transaction generally includes the loan amount advanced or received during the reporting year together with the recognised interest. Where a revolving credit facility or cash pool involves numerous drawdowns and repayments, taxpayers may determine the transaction value using an alternative calculation based on opening balances, drawdowns, repayments and recognised interest, provided that this gives a more objective picture of the financing and the related transfer pricing risk.

The Master File must contain information on the group's financing activities, including the group's financing structure, significant financing arrangements with unrelated lenders, the entities performing group financing functions and the group's transfer pricing policy for intra-group financial transactions.

Advance Pricing Agreement "APA"/Bilateral Advance Pricing Agreement "BAPA" Overview

Latvia provides for an advance agreement procedure under which a taxpayer may apply to the SRS in advance to determine the arm's length price or pricing method for a transaction or type of transaction. A corporate income tax taxpayer may conclude such an agreement where the value of the transaction or planned transaction with a related foreign enterprise exceeds EUR 1,430,000 in the reporting year, or where the value of the controlled transaction in the previous reporting year exceeded EUR 1,430,000. The application must identify the parties, transactions, proposed transfer pricing method, requested period and supporting transfer pricing analysis. The agreement may apply for up to five years. The fee is EUR 7,114, with 20% payable before filing and 80% after the SRS decides to commence the procedure. If no agreement is reached within one year after the procedure starts and continuation is no longer useful, the SRS may terminate the process.

Transfer Pricing Audits

In practice, formal transfer pricing audits are relatively rare due to their complexity. Where they are initiated, they often result in litigation and/or a Mutual Agreement Procedure "MAP". More commonly, the SRS follows a "consult first" approach, under which taxpayers are informed of alleged transfer pricing non-compliance and invited to address the issues voluntarily. In many cases, taxpayers choose to make relatively limited adjustments to their transfer pricing arrangements as a pragmatic compromise, with the aim of resolving the matter at an early stage and avoiding a formal audit and subsequent dispute.

The Burden of Proof in Transfer Pricing: Theory versus Practice

In principle, the taxpayer must be able to demonstrate that its controlled transactions comply with the arm's length principle. This is primarily done through the required transfer pricing documentation and supporting evidence.

The taxpayer should retain intercompany agreements, invoices, correspondence, calculations, evidence that services were actually provided, financial and credit analyses, board materials, forecasts and database search records.

The SRS must substantiate a transfer pricing adjustment in its administrative decision. However, where the documentation is missing, incomplete or inconsistent with the taxpayer's accounts and actual conduct, the taxpayer will usually be required to provide extensive additional evidence.

In practice, taxpayers therefore often find themselves in a defensive position. High-quality documentation is not only a formal compliance requirement but also an important tool for reducing the risk of a transfer pricing adjustment.

The transfer pricing documentation should be consistent with the taxpayer's financial statements, corporate income tax returns, CTR, agreements and actual business operations..

Transfer Pricing Penalties

Failure to submit the required transfer pricing documentation within the statutory deadline, or the submission of materially incomplete documentation, may result in a penalty of up to 1% of the amount of the controlled transaction for which documentation was required, capped at EUR 100,000.

The same penalty applies to the failure to submit, late submission or materially incomplete submission of the Controlled Transactions Report.

Where the SRS makes a transfer pricing adjustment, the adjustment is treated as deemed distributed profit and included in the corporate income tax base. In addition, late payment interest in the amount of 0.05% per each day of delay (but not more than 40% of the principal tax debt) and penalties in the amount of 10% to 30% of the assessed tax can be applied.

Failure to submit a CbCR, or failure to comply with its preparation or submission requirements, may result in a fine of up to 1% of the taxpayer's annual turnover or revenue, capped at EUR 3,200.

Local Hot Topics and Recent Updates

Recent amendments to the Latvian transfer pricing rules have significantly revised the transfer pricing documentation framework for reporting years beginning in 2025.

The most notable development is the introduction of the Controlled Transactions Report, a new transfer pricing reporting obligation that must be submitted electronically in a structured format within 12 months after the end of the reporting year where the total value of relevant controlled transactions exceeds EUR 250,000. The report includes transaction-level information, such as the type and direction of the transaction, its value, the counterparty, the transfer pricing method, the tested party, the source of comparable data and the selected arm's length indicator.

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Documentation threshold

Controlled Transactions Report	Total value of relevant controlled transactions exceeding EUR 250,000.
Master file	Total relevant controlled transactions exceeding EUR 20 million.
Local file	Total relevant controlled transactions exceeding EUR 250,000.
CbCR	Consolidated group revenue exceeding EUR 750 million in the preceding fiscal year.

Submission deadline

Controlled Transactions Report	Must be submitted electronically within 12 months after the end of the reporting year.
Master file	Must be prepared within 12 months after the end of the reporting year. It must be submitted to the SRS within 30 days after the SRS request.
Local file	Must be prepared within 12 months after the end of the reporting year. It must be submitted to the SRS within 30 days after the SRS request.
CbC Report	12 months after the reportable year-end.

Penalty Provisions

Documentation – late filing provision	Fine of up to 1% of the relevant controlled transaction amount, capped at EUR 100,000.
Tax return disclosure – late/ incomplete/no filing	Fine of up to 1% of the relevant controlled transaction amount, capped at EUR 100,000, for failure to submit, late submission or materially incomplete submission of the Controlled Transactions Report
CbC Report – late/incomplete/no filing	Fine of up to 1% of annual turnover or revenue, capped at EUR 3,200

CONTACT
Sandija Novicka
COBALT, Taxand Latvia
sandija.novicka@cobalt.legal
+371 6720 1800

Arnolds Mikāns
COBALT, Taxand Latvia
arnolds.mikans@cobalt.legal
+371 6720 1800