

When does a company need a transfer pricing policy and documentation?

In brief on what the law requires - which companies and which transactions are subject to transfer pricing requirements.

The arm's length principle must be observed in related-party transactions

In transactions with related parties, the price and other terms must always comply with the arm's length principle - regardless of the transaction amount, and also when both parties to the transaction are Latvian companies.

If the price is not at arm's length

The State Revenue Service (VID) may adjust the transaction value and tax the difference.

Audit period

In transfer pricing matters, VID may audit and adjust the last five reporting years.

The policy determines, the documentation substantiates

Transfer pricing policy

Sets the principles for applying prices and other terms in future transactions with related parties.

Applies to future transactions.

Transfer pricing documentation

Substantiates that the related-party transactions carried out in the specific reporting period complied with the arm's length principle.

Applies to transactions already carried out.

03 · WHEN THE DOCUMENTATION OBLIGATION ARISES

Total controlled transactions in the reporting year

EUR 250,000

If the total exceeds this threshold, local transfer pricing documentation must be prepared and a controlled transactions report (KDP) submitted to VID.

Transactions taken into account

Transactions with related foreign companies, certain individuals and persons in low-tax or tax-free jurisdictions, as well as with related residents in a cross-border supply chain.

What counts towards the total?

The total includes the value of all transactions carried out with the above persons. Both incoming and outgoing.

Material transaction

A transaction is considered material if its annual value exceeds EUR 90,000. Smaller transactions need not be analysed separately, but they must be taken into account and must also be at arm's length.

When must the KDP, documentation and CbC report be prepared?

KDP
Controlled transactions
report

If total controlled transactions in the reporting year exceed EUR 250,000. The KDP must be prepared and submitted to VID within 12 months after the end of the reporting year, without a VID request.

LOCAL FILE
Local documentation

If total controlled transactions in the reporting year exceed EUR 250,000. The documentation must be prepared within 12 months and submitted upon VID's request.

MASTER FILE
Global documentation

If total controlled transactions in the reporting year exceed EUR 20,000,000. The documentation must be prepared within 12 months and submitted upon VID's request.

CbC
Country-by-Country Report

If the group's consolidated turnover for the previous fiscal year is at least EUR 750,000,000 and the Latvian company is the reporting entity. The report must be submitted within 12 months after the end of the reporting year.

What to prepare and when to submit if EUR 250,000 is exceeded?

The KDP and the local transfer pricing documentation share the same preparation deadline but have different submission procedures.

If the local documentation has been prepared, preparing the KDP is a formality.

KDP	Must be submitted to VID within 12 months after the end of the reporting year - without a VID request.
Local documentation	Must be prepared within 12 months after the end of the reporting year. Upon VID's request, it must be submitted within 30 days.

What must be reported in the KDP for each material transaction?

1. **Counterparty identification:** name, registration number, country of residence and address
2. **Type of transaction:** goods, services, financial transactions, fixed assets, low value-adding services or other
3. **Direction of the transaction:** purchase or sale, receipt or provision of services
4. **Total transaction amount in euro**
5. **Arm's length pricing method:** comparable uncontrolled price, resale price, cost plus, transactional net margin or profit split method
6. **Source of comparable data:** internal or external data
7. **Tested party**
8. **Selected arm's length indicator:** price in monetary units, interest rate, profit margin (gross, EBIT), cost mark-up, net cost mark-up
9. **Arm's length range** (from-to) or a specific value - in line with the comparable data analysis performed
10. **The arm's length indicator actually applied to the transaction**

KDP and documentation non-compliance creates risks

For failure to submit the KDP or the documentation on time, as well as for materially incomplete documentation, VID may impose a fine. If the transaction terms are not substantiated or are non-compliant, there is also a tax adjustment risk.

Fine	Up to 1% of the relevant controlled transaction amount, but not more than EUR 100,000.
Tax adjustment	If the company cannot substantiate that a transaction complies with the arm's length principle, VID may adjust the taxable income.
The obligation remains	A fine does not cancel the obligation to submit the KDP or the requested documentation.

Let us assess transfer pricing requirements for your company

If your company carries out transactions with related parties, we will help assess them, determine the applicable requirements and prepare the necessary documentation.

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