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Latvia warned to prepare for tougher transfer pricing audits

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Writing on a Baltic business blog, Janis Taukacs, a partner at Sorainen in Riga, said the authorities are not that active in the area yet but that does not mean Latvian businesses can be laidback. "Businesses must remember that tax audits normally can go three years back in Latvia. Thus we must already now project what might be the authorities' approach in 2012," he wrote.

Taukacs told TP Week the tax authorities are learning how to handle transfer pricing issues better. "They are attending all sorts of seminars and lectures and are learning quite rapidly," he said.

It is not surprising the Latvian government is turning to transfer pricing during the economic downturn. The majority of Latvian businesses are either subsidiaries or foreign parent companies or have related entities outside Latvia so transfer pricing enforcement is a vital tool to increase budget revenue.

"The biggest worry for business is, because of the economic situation, the tax authorities will become more aggressive," Taukacs said.

But he is still seeing a relaxed view from the business sector. "People are not taking this seriously enough. Already we are seeing a couple of transfer pricing cases in the Supreme Court whereas previously there were none."

The Latvian tax authorities did not comment on this story. Their communications team asked what was meant by the term transfer pricing.