

APA process

What is APA?

The taxpayer is entitled to request the tax authorities (SRS) to conclude an advance pricing agreement (APA) in order to set the market price for a transaction with a related foreign entity, for a period of up to 5 years.

Why conclude an APA?

While an APA is in force the SRS cannot adjust the arm's length price set for a particular transaction if the taxpayer has acted in line with the terms of the APA and no changes have occurred in its economic activity to conflict with the APA.

What are the preconditions?

1. the value of the transaction exceeds EUR 1,430,000 yearly;
2. a related-party transaction is or will be concluded with a related foreign entity;
3. the same applies to previous reporting years, so long as the TP statute of limitations (5 years) has not expired.

How to conclude an APA?

A taxpayer seeking an APA must apply to the SRS with the following:

- information on the Latvian taxpayer;
- information on the related entity with which the transaction is being conducted, or with which the transaction has been conducted in the past;
- details of the transaction to be covered by the APA;
- method selected for setting the arm's length price of the transaction and reasons for selecting that particular method for doing so;
- period to which the APA will apply.

The application must be submitted together with the local TP documentation file.

What state fees are involved?

APA attracts a state fee of EUR 7,114 payable as follows:

- 20% - prior to submission of the application;
- 80% - upon the SRS decision to initiate the APA process.

If the SRS decides to initiate the APA process, it notifies the taxpayer about the date of APA initiation and the responsible SRS official. During the APA coordination process the taxpayer must actively cooperate with the SRS.

How does the process proceed?

If the SRS and the taxpayer fail to agree on APA conditions within a year after initiation of the APA procedure, then the procedure is terminated.