Adoption of multinational enterprise group's public country-by-country report in EU and Latvia – new level of corporate transparency (2) 3/40/23


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We have written before about the directive on the multinational enterprise (MNE) group's public country-by-country report (CbCR) and how this is being passed into the national laws of EU member states. In this article we will look at Latvia's progress in passing the directive and find out what aspects Latvian taxpayers need to consider and what issues and challenges they may face.

Adoption of the public CbCR directive in Latvia

On 27 September 2023, Latvia passed the Public CbCR Act, which comes into force on 11 October 2023 and requires certain Latvian-registered parent companies and subsidiaries of MNE groups to prepare, file and publish a report on revenues, income taxes and business operations in the residence country of each group company and by tax jurisdiction.

The new rules apply, meaning the public CbCR has to be published, from the financial year beginning on 22 June 2024 or later. The public CbCR must be filed by the parent company, subsidiaries and branches in the Electronic Declaration System (EDS) of the State Revenue Service (SRS) and posted on the parent company's website if the group's total consolidated revenue at the ultimate holding company's balance sheet date exceeds EUR 750,000,000 for two consecutive financial years. The public CbCR must be filed and published no later than 12 months after the date of the balance sheet for the financial year. Subjects of the Act also have to ensure that the information is public and available free of charge.

It's important to add here that unlike the non-public CbCR rules that are currently in force, Latvian subsidiaries and branches will have to file the public CbCR whether or not the parent company has done so in its country. The only exception is subsidiaries that are not medium or large companies under section 5(4–5) of the Company and Consolidated Accounts Act and branches with revenues below EUR 8,000,000.

A detailed description of conditions and exclusions in the Act

The new Act makes it possible to waive particular disclosure requirements for a certain period. One or more particular items of information may be excluded temporarily from the public CbCR if disclosing those items is likely to seriously harm the commercial interests of the entities covered by the report. Yet it's important to remember that any unpublished information will have to be included in the report no later than five years after its initial suppression.

Potential risks and challenges

The public CbCR rules imply that nearly all Latvian companies and foreign company branches that are currently posting statements on the EDS about submission of the CbCR prepared by the group's parent company in its residence country will have to not only report but also translate and file this report on the EDS. The SRS will then have five working days to pass this report for publication on Lursoft's website.

In addition to the new filing obligation, it's important for Latvian taxpayers to be aware of and understand risks inherent in making previously confidential information public. The public CbCR will provide all interested parties with details of revenue, income and income taxes actually paid by the taxpayer and its group, split by group company and residence country. Thus, anyone wishing to analyse the public CbCR data will be able to find, for example the following information:

- Is the MNE group concentrating its profits in countries with a lower effective tax rate?
- Does the MNE group have any tax planning mechanisms in place that, for example allocate profits to companies holding intangible assets in tax havens?
- The Latvian subsidiary's profit level (e.g. as a percentage of revenue) should be compared with other group companies having the same functional profile.

The existence of such information is allowing the SRS to analyse Latvian taxpayers' tax risks and pick companies for in-depth checks.

It's important to note that this information will also be available to the taxpayer's competitors and suppliers, which may significantly affect the company's or group's reputation and future operations. While the Act provides for refraining from immediate publication of particular details, such refraining, too, may send an adverse signal to the SRS or competitors and suppliers. These situations call for a careful assessment of potential benefits and consequences.

Of course, when it comes to evaluating the information that appears in the public CbCR, we need to remember that the format of the report means the information it gives is fairly limited and does not provide the full context for what is happening. Thus, all cases require an in-depth analysis of their facts and circumstances, and we should not forget that the first impression often makes a big difference.

Overall, we recognise that implementing the public CbCR is one of the latest initiatives that will help Latvia build a business environment based on collaboration and transparency. In 2024, implementing the Latvian corporate rating system proposed by the SRS in combination with the public CbCR can serve as an important tool to enhance corporate responsibility and discipline in the new era of sustainable economy.