

Latvia to adopt country by country reporting (2/15/17)

This article describes the latest developments in the area of transfer pricing (TP).

In our series of articles about the OECD's BEPS Action 13, *Guidance on the Implementation of Transfer Pricing Documentation and Country-by-Country Reporting*, we have written about the country-by-country (CBC) report, the Master File, and the Local File ([17.06.2015](#), [7.07.2015](#), [15.07.2015](#), [27.08.2015](#))

Legislative changes

Following the OECD initiative, Council Directive (EU) 2016/881 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation was adopted on 25 May 2016. According to the directive, Latvia is a part of the mandatory automatic exchange of information (AEOI) mechanism in the field of taxation and is required to implement CBC reporting. The Ministry of Finance along with the State Revenue Service (SRS) are currently working on a bill to pass BEPS Action 13 focused on CBC reporting requirements. The bill amends section 15 of the Taxes and Duties Act to require that Latvian taxpayers file a CBC report with the SRS. Approved by the Cabinet of Ministers on 4 April 2017, the bill should soon be presented to Parliament.

The new requirements are expected to come into force on 4 June 2017 for financial years beginning on or after 1 January 2017. Meanwhile, the Cabinet should present requirements specifying the filers and the filings. We expect that these requirements will be based on the OECD standards with local specifics.

CBC reporting requirements

The OECD requires taxpayers to prepare a CBC report in line with the amended Chapter V of the OECD's Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations presented in the BEPS Action 13 report.

The OECD recommends that a CBC report be filed by the ultimate parent of a group with an annual consolidated revenue equal to or exceeding EUR 750 million. The exact threshold for Latvia to be set by the Cabinet might be lower than this. For example, the Bulgarian CBC reporting bill sets a threshold of EUR 750 million for multinationals with a non-Bulgarian ultimate parent and only EUR 50 million for groups with a Bulgarian ultimate parent.

While the primary CBC reporting obligation affects the headquarters of a multinational enterprise (MNE) group, there could be special requirements for local subsidiaries. According to the BEPS Action 13 report and the Council Directive, if a country's national law does not require CBC reporting from the ultimate parent or if the country is out of line with the principles underpinning the AEOI mechanism, then a designated member of the MNE group will act in place of the ultimate parent and be responsible for CBC reporting (the so-called secondary mechanism). To enforce this mechanism, some countries such as Bulgaria, Croatia, Czech Republic and Hungary have introduced the requirement for local subsidiaries to notify their national tax authority as to which entity of the group will be filing a CBC report.

The CBC reporting standard includes the following details of an MNE group for reporting to tax authorities:

- revenues from related and unrelated parties;
- profit (loss) before income tax;
- income taxes paid (on a cash basis);
- income tax accrued;
- stated capital;
- accumulated earnings;
- number of employees; and
- non-financial tangible assets.

The CBC report will serve as a snapshot used by the tax authority in assessing whether the artificial shifting of corporate income to tax-advantaged environments has taken place.

CBC reporting would be required on a calendar-year basis from the fiscal year 2017 onwards and due within 12 months after the year end. In Latvia, a CBC report for 2017 will be due by 31 December 2018 unless the Cabinet sets a different period and deadline.

The OECD has stressed that CBC reporting is to be used by tax authorities in making high-level TP risk assessments (e.g. selecting appropriate cases for a TP audit) and not as a substitute for detailed TP analysis.

Global implementation of BEPS Action 13

Many countries have already adopted a three-tiered approach to reporting requirements. Any MNE group companies operating in those jurisdictions may be required to file their first CBC report for the fiscal year 2016 by 31 December 2017. The map below shows all countries being affected by the BEPS Action 13 requirements:



Updated country-specific details of CBC reporting implementation can be found [here](#).

Preparing for the changes ahead

Parliament is to enact the bill on 4 June 2017. We recommend you deal with the expected changes by drawing up a plan. Below are some practical steps you can take now:

1. Understand which information your group's headquarters will be required to report on the group as a whole and on a local company specifically – what's in and what's out?
2. Evaluate what CBC reporting will reveal about your business.
3. Decide who will be responsible for CBC reporting locally and globally.
4. Ensure that all intragroup transactions are well documented for TP purposes.
5. Check that the data you will be reporting is accurate and reliable.
6. Consider whether you need any extra resource to manage CBC reporting implementation.

PwC is well placed to recommend a strategy that will help you achieve your goals in the ever-shifting compliance environment. If you have any questions, please reach out to [Tatjana Koncevaja](#).