

Taxpayer's benefits from advance pricing agreement with tax authorities (3/23/18)

Entering into an advance pricing agreement (APA) with the Latvian State Revenue Service (SRS) to set the price of a related-party transaction gives the taxpayer certain benefits. This article explores those benefits and outlines conditions for the APA procedure in certain countries.

Confidence about transfer prices

One of the taxpayer's greatest benefits from an APA is confidence that his transfer prices are correct and that the SRS will not audit the transaction or type of transaction as long as the taxpayer abides by all the terms agreed with the SRS.

However, only a unilateral APA with the SRS is currently possible, and so the risk remains that the price of a Latvian taxpayer's transaction with a related foreign company will be challenged by the tax authority of the country where that company is resident. Recent years have seen an increase in bilateral or multilateral APAs involving the tax authorities of countries where a multinational group seeks an APA to ensure two or more parties to the transaction agree on an arm's length price and other terms.

An APA for past periods

Several countries allow the taxpayer to enter into an APA for periods open to audit in order to eliminate the risk of tax authorities revising the taxpayer's transfer prices. Entering into an APA for past periods also helps the taxpayer efficiently resolve a lengthy dispute with the tax authority. The option of entering into an APA for the last five years is included in proposals for amending the Taxes and Duties Act that are expected to come into force on 1 January 2019.

Resource savings

Transfer pricing audits or other control measures (such as a voluntary transfer pricing review as part of the SRS's "Advise first!" arrangement) often take a long time and cause a considerable extra cost to the taxpayer. On the other hand, the APA procedure is a bilateral negotiation that takes place in an environment favouring consultation and cooperation between the taxpayer and the SRS to spare them costly and lengthy control processes and disputes.

APA rules in certain countries

When starting the APA procedure in Latvia, the taxpayer is required to pay €7,114 to the government. Below is a summary of APA fees and time limits in some countries:

No.	Country	Fees (EUR)	Time limits
1.	UK	free of charge	up to 5 years (with the option of entering into an APA for past periods)

1.	USA	51,000 for a first-time APA 30,000 for renewing the APA 25,000 for an APA on small transactions	a minimum of 5 years (with the option of entering into an APA for past periods)
1.	Belgium	free of charge	up to 5 years
1.	Czech Republic	about 400	time limits to be agreed as part of the APA
1.	Denmark	free of charge	up to 5 years
1.	France	free of charge	3–5 years
1.	Latvia	7,114	up to 3 years
1.	Lithuania	free of charge	up to 5 years
1.	Poland	1% of the transaction price subject to these limits: 1,163–11,630 for a unilateral APA on local transactions 4,649–23,249 for a unilateral APA on cross-border transactions 11,630–46,499 for a bilateral APA on cross-border transactions	up to 5 years
1.	Germany	20,000 for a first-time APA 15,000 for renewing the APA 10,000 for amending the APA a 50% discount for small taxpayers	3–5 years (with the option of entering into an APA for past periods)
1.	Sweden	about 14,583	3–5 years