In the cases, under the procedure and to the extent provided for in the act On Taxes and Duties the taxpayer referred to in the Corporate Income Tax Act who is **resident or a permanent establishment of a non-resident** is required to justify **in the Local file** that the price (value) applied in the transactions carried out with the persons specified in Section 15.2, Paragraph two, Clauses 1, 2 and 3, is consistent with the arm's length principle.

According to Section 15.2, Paragraph nine of the act On Taxes and Duties, the **Local file** is the transfer pricing documentation that contains information about the controlled transaction carried out by the taxpayer and includes at least the following information:

1. information about the taxpayer and related multinational enterprises group;
2. information about each material controlled transaction or transaction category, involving the taxpayer;
3. financial information.

According to Section 15.2, Paragraph ten of the act On Taxes and Duties, the Cabinet lays down the detailed content of the information to be included in the documentation.

If the total value of the transaction in the relevant financial year does not exceed EUR 20,000, when preparing the transfer pricing documentation, the taxpayer may in any case consider it not to be a material transaction in the meaning of Paragraphs eight and nine thereof and not to include the information on it in the transfer pricing documentation.

According to Paragraph 3 of the Cabinet Regulation No 802 "Transfer pricing documentation and the procedure for entering into the advance ruling between the taxpayer and the tax administration on setting the arm's length price (value) for a transaction or a kind of transaction" of 18 December 2018

the following information shall be included in the Local file:

3.1. information on the taxpayer and the multinational enterprise group related to it:

3.1.1. the organisational structure of the multinational enterprises group related to the taxpayer (including the legal and shareholding structure), and the geographical location of the entities of the group; The information referred to in this subparagraph may be omitted if is specified by the taxpayer in the Master file;

3.1.2. the description of the organisational and legal structure of the taxpayer (including the management thereof), as well as information on natural persons, to which the management of the taxpayer is reporting, specifying the countries of location of the headquarters of the said natural persons;

3.1.3. the information that explains the mutual business activity processes between the related parties: the functions of the members of a related group, the risks associated with them and assets used, the role and responsibility of the parties involved in transactions, information on the reorganisation of the activity of the taxpayer, as a result of which business functions, assets or risks had been transferred to/ from related parties at the arm's length consideration. The information referred to in this sub-clause may be omitted if is specified by the taxpayer in the Master file;

3.1.4. a detailed description of the taxpayer's business activity and its strategy, indicating whether the taxpayer has carried out a restructuring of the business activity or transferring of intangible property in the relevant or the previous reporting year, as well as an explanation of how those transactions affected the taxpayer;

3.1.5. key competitors;

3.2. information on each significant controlled transaction or transaction category, in which the taxpayer has been involved:

3.2.1. a general description of the controlled transaction or transaction category (such as, the provision of production services, acquisition of goods, provision of services, a loan agreement, a financial and performance guarantee, issuance of the intangible property licence) and the conditions under which such transactions took place;

3.2.2. the amount of payments made and received by the taxpayer for each controlled transaction or transaction category (including, such as, payments made and received for goods or services, royalties, interest), categorizing the information by the country of residence of the foreign persons or beneficiaries - recipients of the payments;

3.2.3. the related companies involved in each controlled transaction or transaction category, as well as relations between these companies;

3.2.4. the copies of the agreements of all material controlled transactions of the taxpayer;

3.2.5. a detailed comparability and functional analysis of the taxpayer and the related company in relation to each documented controlled transaction or transaction category, including identifying any changes compared to the previous year (to the extent that the information on functional analysis referred to in this provision coincides with the information identified in the Master file, the reference to the Master file is sufficient);

3.2.6. the reference to the transfer pricing method used for determining the arm's length price (value) for each transaction or transaction category, and the reasons for selecting that method;

3.2.7. the reference to the related company that has been selected as the tested party (i.e., the company the financial indicators of which are analysed (if applicable)), and an explanation of the reasons for this selection;

3.2.8. information on material (critical) assumptions underlying the transfer pricing methodology, which has been aligned with the taxpayer's forecasts regarding its future activity pursuant to the transaction or commercial or financial relations with a related party;

3.2.9. an explanation of the reasons for the use of a multiple-year data (if applicable);

3.2.10. the list of internal or external comparable uncontrolled transactions, description, the copies of the contracts (if available) or the description of contractual terms and conditions and information on the relevant financial indicators of unrelated companies, which underlie the transfer pricing analysis, and supporting information (such as screenshots with the date of taking them, downloaded data from databases with a registered date of the downloading), including the methodology for the search of the benchmarking data, including the justification for the search criteria and the reasons for the rejection of the data, as well as a sequential record (for each stage) of the quantitative and qualitative search carried out (for example, screenshots, download data from the database), and the source of that information;

3.2.11. the description of the comparability adjustments made and an indication whether the adjustments have been made in respect of the performance of the tested party or of the comparable uncontrolled transaction, or both;

3.2.12. detailed considerations based on the selected method for determining the arm's length price (value) (including mathematically) of the transaction to support that the relevant price (value) of the transaction is consistent with the price that would have been determined had the commercial or financial relations been formed or established in accordance with the terms and conditions in force between two independent parties;

3.2.13. a summary of the financial information used in applying the transfer pricing methodology;

3.2.14. the copies of existing unilateral, bilateral and multilateral advance pricing agreements and other tax rulings (including the rulings concerning the rights), unless these rulings have been entered into with or issued by Latvian tax authority, and they are relevant for the controlled transactions referred to herein;

3.3. financial information:

3.3.1. the taxpayer's annual financial statements for the relevant financial year and the auditor's report, if such has been issued;

3.3.2. information and tables that presents the relevance of the financial data used in the application of the pricing method for determining the arm's length price (value) of the transaction with the financial statements;

3.3.3. general information on using the relevant benchmarking financial data in the analysis, as well as on the source of the said data.