

STATE REVENUE SERVICE **PUBLIC REPORT** **2019**



Valsts ieņēmumu dienests



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A message to taxpayers, cooperation partners and colleagues



Each year is marked by something of its own, each has its own significant turning point, affecting the life and work of a person, enterprise or institution. This is how it should be. The year 2019 was a crucial turning point in the operation of the State Revenue Service (SRS). It was the time when a completely new strategy of the SRS was developed, aiming to make Latvia a country where tax and customs liabilities are voluntarily fulfilled. In our country, this is a completely new approach, the aim of which is to make our country more

prosperous and ensure a higher level of well-being for the nation.

In order to achieve this, a new independent organisational unit was established – the Tax Compliance Incentive Department – by restructuring and uniting the SRS Tax Control Department and Tax Debt Enforcement Department. The SRS Tax Administration Risk Management Division transformed into the Taxpayer Behaviour Analysis and Forecasting Department. In its turn, the Excise Goods Division was included in the National Tax Board structure. It may seem that what has happened is simply a re-screwing of door plates of offices and changing of position names in ledger entries. In fact, it is a change of thinking from “recover” and “struggle” to “promote” and “analyse”. It is a shift to a situation where the public is interested in paying taxes, rather than the SRS is attempting to collect them. This principle also anticipates that it is

not the size of an undertaking that matters, but the fact that liabilities to the state are fulfilled in good faith. Therefore, any company operating in Latvia can become a big taxpayer in its region, in its sector, in its category of large, medium or small businesses. Clients should be trusted, their trust should be strengthened, and they should be helped in changing their commitment behaviour by sharing information and knowledge.

The priorities of the SRS in 2020 and the following two years are minimising “envelope” wages, Value Added Tax fraud, illegal movement of excise goods, drug smuggling, and circulation of illegally-gained cash. By continuing the initiated measures purposefully, together we can ensure that voluntary tax payment is a norm, “envelope” wages are no longer popular by being clearly aware that that is synonymous to poverty, and every capable resident of Latvia is involved in contributing to the welfare of the state and the nation.

Let us make our Latvia an even better country together!

Ieva Jaunzeme,
SRS Director General

1. Background Information

1.1. Legal Status and Structure of the SRS

The SRS is a direct administration authority under the supervision of the Minister for Finance, which ensures the accounting of tax payments and taxpayers and the collection of State taxes, fees and other mandatory payments determined by the State in the territory of the Republic of Latvia, as well as collection of taxes, duties and other mandatory payments for the EU budget and implements customs policy and handles customs matters.

The main tasks of the SRS are laid down in the Law On the State Revenue Service and the Law On Taxes and Fees.

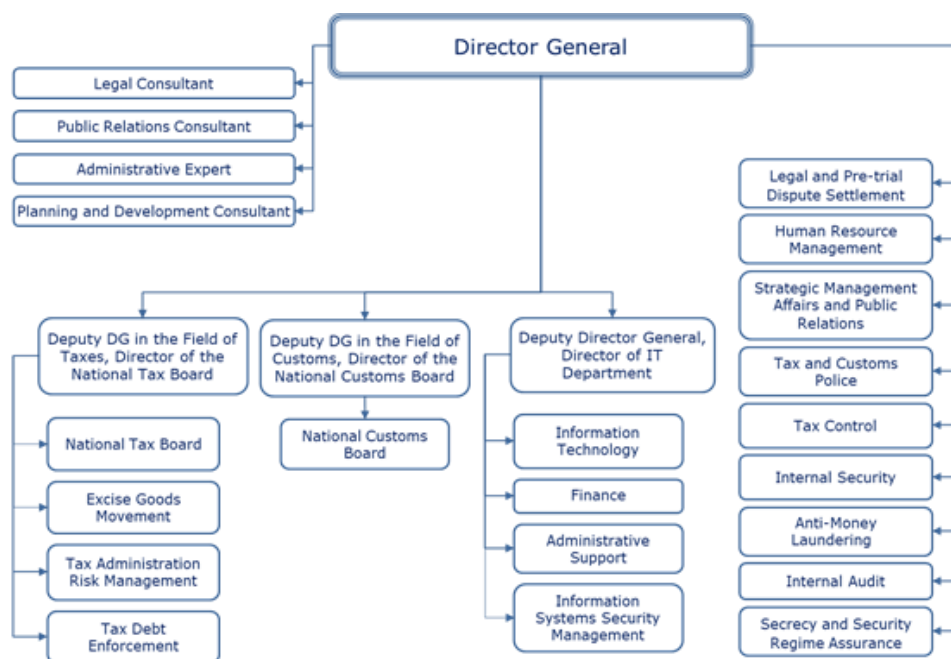


Fig. 1. Organisational structure, 2019

1.2. Priorities for 2019

In 2019, the SRS set the following **priority tasks and activities**:

- Maximisation of overall budget revenues administered by the SRS
- Improvement of communication and satisfaction of clients
- Application of the restraining penalty policy
- Investment in employees

1.3. Performance Strategy for 2017–2019

Purpose of Operations (Mission)

Fair and effective administration of taxes and customs matters, providing high-quality services and implementing smart supervision over compliance.

Future Goals (Vision)

We are a modern and effective, fair, and respected state administration institution open and comprehensible to our clients — a reliable partner for the State and the public with high institutional culture and employee pride in belonging to the SRS and the State of Latvia.

SRS Values



PROFESSIONALISM –

knowledge and competences at a high level, ability to apply them in work, sustainability and high work ethic



COOPERATION –

good fellowship and openness in fulfilment of duties, single understanding of goals and attainment thereof



LOYALTY –

dedication to interests of the State and the public, considering them as primary both at work and beyond



HONESTY –

equal and fair attitude towards clients, partners and colleagues



RESPONSIBILITY –

pro-active decision-making and responsibility for consequences

Pillars and Strategic Objectives



Satisfied and honest SRS clients and the public in general

- Fair competition and elimination of shadow economy
- High level of public safety and security
- Strong taxpayer culture
- Open cooperation with the public, private and non-governmental sectors
- Fast, convenient and understandable SRS services for clients
- Image compliant with SRS values and a strong reputation



Motivated and actively involved employees

- Clear and predictable remuneration and motivation system
- Professional, cooperative, honest, responsible and loyal employees
- Open, responsible and trust-based organisational culture



Effective internal processes based on modern technologies

- Maximum optimised internal processes
- Effective management of priorities and projects
- Green thinking in effective use of funds

2. Assessment of the Implementation of Effective Strategic Indicators of the SRS Performance Strategy for 2017–2019

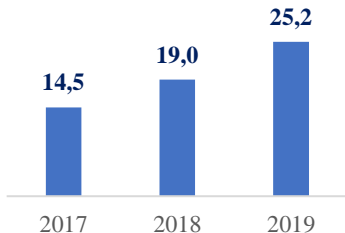
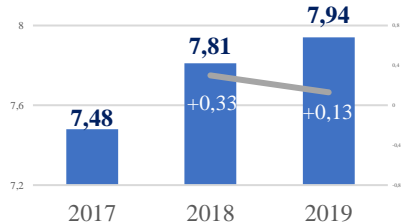


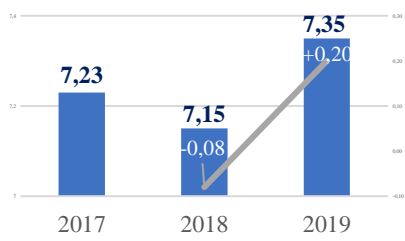
1st pillar. Satisfied and Honest SRS Clients and the Public in General

Table 1. Implementation of performance indicators compared to planned

Performance results	Performance indicators	Implementation of Indicator			Information on implementation
		2017	2018	2019	
1 st goal. <i>Fair competition environment and shadow economy reduction in the SRS area of influence</i>					
Reduced tax gap in most important tax revenues (there is a reduction tendency)	VAT gap at the declaration stage in the previous year, %	<p>Fig. 2. VAT by year</p>			During a three-year period, the VAT gap was reduced by 7.2%. Implementation of the indicator exceeded the planned amount: <ul style="list-style-type: none">2016 by 0.1% (forecast - 15.0%)2017 by 4.2% (forecast - 14.4%)2018 by 6.2% (forecast - 13.9%) Reduction of the VAT gap is driven by economic growth and introduction of a number of regulatory frameworks: <ul style="list-style-type: none">reverse payment arrangements for construction services and household appliancesreduction of the threshold of VAT taxable transactions5% VAT for fruit, berries and vegetables specific to Latvia
	PIT gap at the declaration stage in the previous year, %	<p>Fig. 3. PIT gap by year</p>			During a three-year period, the PIT gap was reduced by 3.4%. Implementation of the indicator was exceeded the planned amount: <ul style="list-style-type: none">2016 by 0.5% (forecast - 17.5%)2017 by 2.8% (forecast - 17%)2018 by 2.2% (forecast - 15.8%) According to the SRS, in 2018, around 19% of total wages were paid in “envelopes”.
	MSSIC gap at the declaration stage in the previous year, %	<p>Fig. 4. MSSIC gap by year</p>			In 2017-2019, the MSSIC gap was reduced by 2.7%. Implementation of the indicator exceeded the planned amount: <ul style="list-style-type: none">2016 by 0.6% (forecast - 18.4%)2017 by 2.5% (forecast - 17.4%)2018 by 1.5% (forecast - 16.6%) The rate of reduction of the MSSIC gap shows that non-declaration of taxes is still prevalent. A slight increase in the MSSIC gap in 2019, compared to 2018, can be explained by the increase of average wages in the country. Thus, the difference in the “grey” economic sector has increased, where MSSIC contributions are paid primarily from the minimum wage. For the PIT tax gap, this effect is offset by tax contributions from capital gains.

Performance results	Performance indicators	Implementation of Indicator			Information on implementation
		2017	2018	2019	
	Excise duty gap for cigarettes in the previous year, %	<p>21,6 19,4 18,4</p> <p>2017 2018 2019</p> <p>Fig. 5. Excise duty gap for cigarettes</p>			<p>During a three-year period, the excise duty gap was reduced by 3.2%. Implementation of the indicator exceeded the planned amount:</p> <ul style="list-style-type: none"> 2016 by 1.9% (forecast - 23.5%) 2017 by 0.6% (forecast - 20%) 2018 by 1.1% (forecast - 19.5%) <p>Although the excise duty gap for cigarettes has decreased quite significantly, it is still large.</p>
Maximum possible amount of taxes to be collected	Rate of increase in collected revenues as compared to the rate of increase in GDP, %	<p>0,66 0,71 0,52</p> <p>2017 2018 2019</p> <p>Fig. 6. Rate of increase in collected revenues as compared to the rate of increase in GDP</p>			<p>Latvia's economic growth has had a positive impact on the collection of general budget revenues administered by the SRS. However, the growth rate of revenue collected in 2019 compared to the rate of GDP growth was lower than in other years, partly due to changes in CIT payment arrangements as a result of the tax policy reform.</p> <p>Implementation of the indicator compared to the planned value:</p> <ul style="list-style-type: none"> 2017 by 0.44% less (forecast + 1.1%) 2018 exceeded by 0.01% (forecast + 0.7%) 2019 exceeded by 0.02% (forecast + 0.5%) <p>In 2019, the general budget revenues administered by the SRS were secured due to an increase in labour tax revenues.</p>
Targeted and high-quality pre-trial investigation of criminal offences achieved	Share of criminal proceedings transferred for commencement of criminal prosecution returned from the Prosecutor's Office to SRS during a calendar year, %:	5.2	0	0.4	<p>Implementation of the indicator was exceeded the planned value:</p> <ul style="list-style-type: none"> 2017 by 0.8 % in the field of national revenue and by 5.1 % in the field of customs cases (forecast 6% and 6% respectively) 2018 by 6% (forecast - 6%) 2019 by 4.6% (forecast - 5%) <p>Starting from 2018, with the establishment of the Tax and Customs Police Department, crime combating indicators have been integrated in the field of State revenues and customs matters. Achieved results show that a targeted, qualitative and effective pre-trial investigation performed.</p>
	- in the field of State revenues				
Restriction of organised crime achieved	- in the field of customs matters	0.9	70.1	72.5	<p>Implementation of the indicator compared to the planned value:</p> <ul style="list-style-type: none"> 2017 by 9.9 % in the field of national revenue and by 4 % in the field of customs matters (forecast 80% and 72% respectively) 2018 by 9.9% less (forecast - 80%) 2019 by 9.5% less (forecast - 82%) <p>At the same time, it should be noted that pre-trial investigations under Section 7 of the Criminal Law are carried out in all criminal proceedings, irrespective of the classification of the criminal offence, and the number of criminal proceedings sent for initiation of criminal proceedings has increased by 32% over three years.</p>
	Share of serious and especially serious crimes of all criminal proceedings transferred for the commencement of criminal prosecution, %;	70.1			
	- in the field of State revenues				
	- in the field of customs matters	76			

Performance results	Performance indicators	Implementation of Indicator			Information on implementation
		2017	2018	2019	
2 nd goal. <i>High level of public safety and security, prohibiting importation of goods and substances dangerous to people and the environment</i>					
Number of goods harmful for the public and environment, and counterfeit goods ending up in circulation reduced	Effectiveness of customs physical control, %	 <p>Fig. 7. Effectiveness of customs physical control</p>			<p>The effectiveness of customs physical controls increased by 10.7% in 2017-2019, which is a significant improvement.</p> <p>Implementation of the indicator compared to the planned value:</p> <ul style="list-style-type: none">2017 by 9.5% less (forecast - 24%)2018 by 6% less (forecast - 25%)2019 by 0.2% more (forecast - 25%) <p>The increase in the indicator is driven by strengthening analytical capacity, thereby ensuring implementation of risk-based customs control measures through efficient use of customs technical equipment. The increase in the effectiveness of physical control is mainly influenced by a number of prohibitions on the release for free circulation of goods, an increase in detected non-declared cash cases and an increase in the number of calculated security cases. There is positive effect from the gradual provision of all EU external border CCPs with cargo control X-ray equipment.</p>
3 rd goal. <i>Strong taxpayer culture in society (“Don’t be indifferent to avoidance of tax payments!”)</i>					
Tolerance of the public towards evasion of tax payments has decreased	Public opinion – people agree that partial tax evasion can be justified, SKDS research results, %	40	37	37	<p>SKDS research results show that the number of people who agree that partial tax evasion can be justified has decreased by 3 % over three years.</p> <p>Expected values of the indicator were not achieved and were lower:</p> <ul style="list-style-type: none">2017 by 3% (forecast - 37%)2018 by 2% (forecast - 35%)2019 by 3% (forecast - 34%) <p>Public attitude towards tax evasion is changing more slowly than planned and a significant portion of the public still thinks that partial tax evasion is justifiable.</p>
4 th goal. <i>Open and productive cooperation with partners of public, non-governmental and private sectors</i>					
Involvement of public, non-governmental and private sector in promoting fair competition and reducing shadow economy in the SRS area of influence achieved	Satisfaction assessment of sector associations regarding cooperation with SRS; according to survey results, increase in points in relation to the previous year	 <p>Fig. 8. Assessment of satisfaction of sectoral associations with cooperation with the SRS</p>			<p>According to the survey results, satisfaction of sectoral associations with cooperation with the SRS increased by 0.46 points in 2017-2019.</p> <p>The expected values of the indicator were not achieved and were lower:</p> <ul style="list-style-type: none">2018 by 0.77 points (forecast +1.1)2019 by 1.74 points (forecast +1.1) <p>When developing the SRS Performance Strategy for 2017–2019, this indicator was included for the first time. Thus, it was not possible to identify the planned values for the next three years precisely and they were planned too optimistically.</p>

Performance results	Performance indicators	Implementation of Indicator			Information on implementation
		2017	2018	2019	
5 th goal. <i>Fast, convenient and understandable SRS services for clients</i>					
Increased satisfaction of clients with services provided	Client satisfaction with the speed, convenience and comprehensibility of services provided: according to survey results, increase in points as compared to the previous year	 <p>Fig. 9. Client satisfaction with speed, convenience, and comprehensibility of services provided by the SRS</p>			<p>According to survey results, in 2017-2019, satisfaction of customers with the speed, convenience and comprehensibility of services provided increased by 0.12 points. The expected values of the indicator were not achieved and were lower:</p> <ul style="list-style-type: none">2018 by 0.38 points (forecast +0.3)2019 by 0.48 points (forecast +0.3) <p>It should be noted that the increase in the indicator in 2019 compared to 2018 was 0.28 points, nearly achieving the projected increase. When developing the SRS Performance Strategy for 2017–2019, this indicator was included for the first time. The slight decline of the indicator in 2018 was likely affected by broader tax policy changes that took effect in 2018. The changes most strongly affected legal entities since; for example, the procedure for paying CIT was changed. But, natural persons felt the transition to the progressive tax system more acutely – changes in PIT. The tax reform resulted in an increase in the number of taxpayers who were obliged to submit annual tax returns for 2018 in 2019, due to the occurrence of a tax margin payable to the state budget.</p>
	Changes in the time required to pay taxes – from the results of the World Bank study <i>Doing Business</i> , hours per year	168.5	168.5	168.5	<p>According to the results of the World Bank study <i>Doing Business</i>, the time needed to pay taxes has not changed and has been 168.5 h/year since 2017. The expected values of the indicator were not achieved and were lower:</p> <ul style="list-style-type: none">2017 by 18.5 hours (forecast - 150 hours)2018 by 38.5 hours (forecast - 130 hours)2019 by 48.5 hours (forecast - 120 hours) <p>This was affected by a relatively small and stable number of respondents completing the <i>Doing Business</i> questionnaires for several consecutive years in order to assess the time spent on tax procedures. According to the results of the DB2020 study in the Tax Payment section, Latvia went down from 13th to 16th place compared to the previous year.</p>
6 th goal. <i>Image compliant with the SRS values and a strong public reputation</i>					
High public reputation of the SRS	Public trust according to SKDS survey results, %	40.6	51.2	43.1	<p>SKDS survey results on trust in state institutions show that public confidence in the SRS increased by 2.5 % in 2017-2019. Implementation of the indicator compared to the planned value:</p> <ul style="list-style-type: none">2017 exceeded by 4.6% (forecast - 36%)2018 exceeded by 11.2% (forecast - 40%)2019 by 1.9% less (forecast - 45%)



2nd Pillar Motivated and Actively-Involved Employees

Performance results	Performance indicators	Indicator implementation			Information on implementation
		2017	2018	2019	
1 st goal. <i>Open, responsible and mutual trust-based SRS organisational culture</i>					
Cooperation in ensuring the attainment of common goals strengthened	Satisfaction of SRS employees with cooperation between structural units – survey results indicate an increase in points as compared to the previous year	7.11	- ¹	-0.01	Survey results indicate SRS employee satisfaction with the cooperation between structural – it increased by 0.89 points in 2017-2019. The estimated value of the indicator was not reached in 2019 and was below 0.01 (forecast + 0.9 [2018 +0.4, 2019 +0.5] or 8.01 points). In 2018, the survey was not conducted.
2 nd goal. <i>Clear and transparent remuneration and motivation system; professional improvement based on performance priorities</i>					
SRS employees are satisfied with the set remuneration and motivation system	Employee satisfaction with the remuneration and motivation system, survey results, %	75	- ¹	62.1	In 2017-2019, SRS employee satisfaction with remuneration and motivation system decreased by 12.9 %. Implementation of the indicator compared to the planned value: <ul style="list-style-type: none">2017 exceeded by 15% (forecast - 60%)2019 by 7.9% less (forecast - 70%) Although in 2019 the average monthly salary of the SRS employees reached EUR 1423, an increase of 12.4% compared to 2017, it is still not sufficiently high. Average remuneration is only 74.6% of the maximum monthly salary set in Cabinet regulations. Therefore, remuneration does not correspond to the targeted monthly salary of the state administration – 80% of the remuneration of similar value positions in the private sector.
	Percentage of employees who left the SRS and who mentioned remuneration and/or the motivation system as the reason; % of the employees who gave reasons for leaving	31	40	43	In three years, the percentage of employees leaving the SRS who mentioned remuneration and/or the motivation system for leaving increased by 12%. Expected values of the indicator were not achieved and were higher: <ul style="list-style-type: none">2017 by 4% (forecast - 27%)2018 by 15% (forecast - 25%)2019 by 20% (forecast - 23%) In 2019, the largest share of employees who left the SRS had a monthly salary ranging from EUR 558 to EUR 1694.
Training is useful and is ensured according to activity priorities and	Employee satisfaction with implemented training activities, survey results, %	82	- ¹	87	Survey results indicate that employee satisfaction with implemented training activities increased by 5% in 2017-2019. Implementation of the indicator was exceeded compared to the planned value: <ul style="list-style-type: none">2017 by 4% (forecast - 78%)2019 by 5% (forecast - 82%)


¹ A satisfaction survey of the SRS employees is conducted every two years, so the survey for 2018 is unavailable.

Performance results	Performance indicators	Indicator implementation			Information on implementation
		2017	2018	2019	
development of competences	Employee satisfaction with the possibility of professional improvement, survey results, %	84	- ²	85	<p>Survey results indicate that employee satisfaction with the possibility of professional improvement increased by 1% in 2017-2019.</p> <p>Implementation of the indicator was exceeded compared to the planned value:</p> <ul style="list-style-type: none"> 2017 by 9% (forecast - 75%) 2019 by 5% (forecast - 80%)
3rd goal. Professional, cooperation-oriented, honest, responsible and loyal employees					
High level of client satisfaction with the service culture of SRS employees	SRS provides services to residents in an excellent and professional manner, %, SKDS survey results ordered by the State Chancellery	67	74	64	<p>According to the results of the SKDS survey, the indicator – the SRS provides services to inhabitants in an excellent and good manner – decreased by 3% in 2017-2019.</p> <p>Implementation of the indicator compared to the planned value:</p> <ul style="list-style-type: none"> 2017 by 1% less (forecast - 68%) 2018 exceeded by 4% (forecast - 70%) 2019 by 8% less (forecast - 72%) <p>Amendments to the law On Personal Income Tax entered into force on 1 January 2018, and the SRS projected monthly non-taxable minimum and progressive tax rates (20%, 23% and 31.04%) were introduced. It can be assumed that client satisfaction was affected to a large extent by the new annual income declaration procedure, which caused much uncertainty in the first year.</p>
Corruption risks at SRS have been reduced by performing effective risk management	Share of reasoned corruption incidents from all received corruption incidents, %	23	4	6	<p>Implementation of the indicator compared to the planned value:</p> <ul style="list-style-type: none"> 2017 by 16% more (forecast - 7%) 2018 by 1% less (forecast - 5%) 2019 by 2% more (forecast - 4%) <p>It should be noted that a different approach was used each year as a basis for calculating the indicator.</p> <p>The calculation of the 2017 indicator was based on both administrative and criminal offences. In 2018, the approach in the calculation methodology of the indicator changed. As a result, the performance of the indicators significantly decreased: only major violations, for which criminal liability was set, were included in the calculation of the indicator.</p> <p>In 2019, the increase in the number of corruption incidents was affected by both the strengthening of the internal security function of the SRS, covering new areas in detecting potential offences, and also capacity strengthening, including the introduction of a new process – parallel financial investigation.</p>

² Satisfaction survey of the SRS employees is conducted every two years, so the survey for 2018 has not been conducted.



3rd pillar. Effective Internal Processes which are Based on Modern Technologies

Performance results	Performance indicators	Indicator implementation			Information on implementation
		2017	2018	2019	
1 st goal. <i>Maximum optimised internal processes</i>					
Productivity of work increases as a result of optimisation of processes	Amount of collected revenues per employee, EUR thousand	 <p>2311 2577 2736</p> <p>2017 2018 2019</p> <p>Fig.10. Amount of collected revenues per employee</p>			In 2017-2019, the amount of collected revenues per employee increased by EUR 425 thousand. Implementation of the indicator was exceeded compared to the planned value: <ul style="list-style-type: none">2017 by EUR 220 thous. (forecast - EUR 2091 thous.)2018 by EUR 219 thous. (forecast - EUR 2358 thous.)2019 by EUR 259 thous. (forecast - EUR 2477 thous.) Implementation of the indicator was facilitated by a steady increase of the general budget revenues administered by the SRS and by the reduction of actually working employees.
Reduced bureaucracy and amount of in-expediently used resources in internal administrative procedures	Types of internal documents circulated in paper form, number	42	46	24	In 2019, there were only 24 types of internal documents in paper form in circulation, almost half compared to 2017. Implementation of the indicator compared to the planned value: <ul style="list-style-type: none">2017 exceeded by 26 types of documents (forecast - 68)2018 the planned value was achieved (forecast - 46)2019 by one type of documents less (forecast - 23)
2 nd goal. <i>Effective management of priorities and projects</i>					
“MAIS kodols” project implemented	Share of the extent (budget) of project implementation from the total project budget, %	1.12	30	47	In 2017-2019, the share of the budget used to implement the MAIS project was 78.12% of the total budget of the project. Implementation of the indicator compared to the planned value: <ul style="list-style-type: none">2017 exceeded by 0.12% (forecast - 1%)2018 by 4% less (forecast - 34%)2019 by 1% less (forecast - 48%)
	Project implementation volume (activities) according to the project plan, %	100	97	100	Implementation of project activities reached the expected value in 2017 and 2019, while in 2018 the performance was 3% lower compared to the plan.
“E-customs (Stage 1)” project implemented	Share of the extent (budget) of project implementation from the total project budget, %	23	39	30	In 2017-2019, the share of the budget used to implement the E-customs project was 92% of the total budget of the project. Implementation of the indicator compared to the planned value: <ul style="list-style-type: none">2017 by 6% less (forecast - 29%)2018 exceeded by 2% (forecast - 37%)2019 exceeded by 4% (forecast - 26%)

Performance results	Performance indicators	Indicator implementation			Information on implementation
		2017	2018	2019	
	Project implementation volume (activities) according to the project plan, %	100	100	100	In 2017-2019, the volume of project activities corresponded fully to the plan.
“Introduction of Video Surveillance at CCP” project implemented	Share of the extent (budget) of project implementation from the total project budget, %	16	83	1	Share of the budget used to implement video surveillance deployment for the CCP project in 2017-2019 is 100% of the total budget of the project, which fully complies with the planned budget. Implementation of the indicator compared to the planned value: <ul style="list-style-type: none"> 2017 exceeded by 9% (forecast - 7%) 2018 by 10% less (forecast - 93%) 2019 the budget share of the project was 1% of the total budget of the project, since the last invoices were paid in March 2019. On 21 November 2018, implementation of the budget was completed. The video surveillance system deployed and operates at all 23 facilities.
	Project implementation volume (activities) according to the project plan, %	100	100	-	From 2017-2019, the volume of project activities fully corresponded to plan.
3rd goal. <i>Green thinking in effective use of funds allocated to SRS</i>					
SRS employees understand and observe green thinking principles in fulfilling their daily work tasks and maintaining their working environment	Used paper per employee as compared to the previous year, %	- 17.4	- 5.4	- 12.9	Paper usage per employee, on average, decreased by 18% in 2017–2019; thus, allowing the SRS to save almost 6523 paper packs, achieving total reduction of paper usage by 25%. Implementation of the indicator was exceeded compared to the plan: <ul style="list-style-type: none"> 2017 by 12.4% (forecast - 5%) 2018 by 0.4% (forecast - 5%) 2019 by 7.9% (forecast - 5%)
	Energy savings as compared to the previous year (at Talejas iela 1), %	7.26 mil. kWh	- 3.7	- 8.3	Total consumption of electricity in 2017–2019 decreased by 0.85 mil. kWh or 11.7 %. Total usage of electricity at Talejas iela 1, Riga: <ul style="list-style-type: none"> 2017 - 7.26 mil. kWh (indicator calculated for the first time) 2018 - 6.99 mil. kWh, 0.27 mil. kWh less than 2017 2019 - 6.41 mil. kWh, 0.58 mil. kWh less than 2018 When developing the SRS Performance Strategy for 2017–2019, planned values were not set for this indicator.
	Share of green purchases from all procurements included in the overall plan of procurements, %	2.6	11.0	14.6	Over three years, the number of green purchases in the total procurement plan increased 4.5 times. Out of procurements included in the overall plan of procurements: <ul style="list-style-type: none"> 2017 - 4 green purchases (the indicator was calculated for the first time) 2018 - 10 green purchases 2019 - 18 green purchases When developing the SRS Performance Strategy for 2017–2019, planned values were not set for this indicator.

2.1. Improvement of Client Service

Enhanced Cooperation Programme (ECP)

On 1 January 2019, an improved ECP was launched, allowing an increasing range of businesses, including small and medium-sized enterprises, to use this cooperation programme and its provided benefits: 136 gold-level, 378 silver-level and 3610 bronze-level participants were included in the ECP.

At the end of 2019, ECP members who did not meet their criteria changed their level and new members were selected. As a result, 95 gold-level, 312 silver-level and 4019 bronze-level participants remained.

Depending on the programme level, the participants are provided with different benefits, which are comprehensively described on the [SRS website](#). From 28 December 2019, the Office of Citizenship and Migration Affairs also offers relief to ECP members regarding the terms for residency permits.

SRS Virtual Assistant Toms



SRS Virtual Assistant Toms (*Tiešsaistes Operators Mērķtiecīgai Saziņai* [Online Operator for Targeted Interaction]) was developed on the language technology platform Hugo.lv for the state administration of Latvia in cooperation with the Culture Information Systems Centre and the language technology company SIA “Tilde”, who started working on the SRS website in test mode on 2 January 2020. Toms will help to reduce the volume of calls while ensuring the opportunity for clients to receive answers to simple questions outside business hours and allowing consultants to spend more time addressing complex issues.

Electronic Declaration System (EDS)

- solution (wizard) helps taxpayers to complete a declaration of income from capital gains on alienated real estate more simply and easily by replying to questions;
- simplified annual income declaration introduced, where the data at the disposal of the SRS are provided, which is necessary for the preparation and inclusion of the declaration in PIT calculation;
- possibility of forwarding all inquiries from the “Statements” section provided;
- EDS e-training module for legal issues developed regarding the requirements for enforcement of the AML/CFT Law and the Law On International Sanctions and National Sanctions of the Republic of Latvia;
- simplified procedure for requesting and registering numbers of receipts certifying transactions;
- simplified CIT declaration form in which data at the disposal of the SRS are loaded automatically, data entry control system is incorporated, and the number of lines to be filled reduced from 103 to 32 rows, ensuring that taxpayers complete only specific columns in order to answer questions;
- VAT declaration improved; it is automatically rescheduled when the tax period changes and automatically checked whether the counterparty is a VAT payer;
- a number of controls incorporated when completing the employer report (DDZ), including warning a taxpayer about errors on the absence of a registered employment relationship with the employee;
- a register of storage tanks for petroleum products established in which a list of current tanks will be maintained. The solution reduces the processing of data submitted in paper form and helps taxpayers to maintain their binding information in a single register;
- eight EDS documents have a simplified selection of forms corresponding to the tax period of the declaration. When starting to prepare a document, the user is offered a calendar “from” and “to”

for entering a tax period. When this is indicated, the system automatically provides an input form for the declaration corresponding to that period; and

- possibility to receive personalised advice by calling the SRS hotline. During the call, the caller must connect to his/her EDS account and identify himself/herself by naming a four-symbol code.

Electronic Customs Data Processing System (ECDPS)

- automated release for import customs warehousing procedure and certification of the warehouse keeper in ECDPS provided on the basis of risk analysis and in accordance with the parameters specified in the system;
- functionality of the Electronic Transport Document (ETD) (incoming) in ECDPS introduced, ensuring simplification of the Union transit procedure for airlines as set in the Union Customs Code;
- functionality introduced for presentation of import customs declarations for postal consignments of natural persons (up to EUR 1 000), enabling residents to complete customs formalities for non-EU consignments quickly and easily;
- integration of the Latvian Railways e-SMGS with ECDPS, automating the presentation of cargo for export by rail, replacing paper documents with the use of electronic information, simplifying the procedure and reducing its execution time; and
- functionality of the ECDPS data exchange with the International Freight Logistics and Port Information System (SKLOIS) established, ensuring comparison and transfer of electronic cross-system data for further use, accelerating the completion of export formalities for cargo leaving by sea.

Circulation of Excise Duty Goods

- On 1 February 2019, an online system was introduced for the registration of licences and certificates and a control mechanism to keep limits for petroleum products subject to reduced rates of excise duty or exemption from excise duty, using the SRS database; and
- From 1 March 2019, the amount of information to be declared in the circulation reports of alcoholic beverages and tobacco products substantially reduced by removing the need to declare the names of products imported into Latvia.

2.2. Combatting Shadow Economy

To promote fair competition in business and the voluntarily fulfilment of tax obligations, the SRS implemented both preventive and control measures to reduce shadow economy in 2019.

As the result of implemented control measures, tax losses of **EUR 99.6 million** were prevented in total, including:

- EUR 80.7 million – additionally calculated taxes (tax audits, data compliance checks, adjustment of the amount of tax, tax calculations at the request of the person directing the criminal proceedings);
- EUR 13.6 million — VAT losses eliminated by excluding taxpayers for which no additional estimations of VAT have been performed from the SRS VAT Taxable Persons Register; and
- EUR 5.3 million — taxpayers have additionally declared taxes (within the framework of thematic inspections, data conformity checks, risk analysis and prior to the tax audit).

In 2019, compared to 2018, the amount of tax losses eliminated as the result of tax control decreased by EUR 53.4 million or 35%, which was affected by:

- a reduction in the number of tax control measures, considering the reduction in the number of tax control operators as well as the

application of the principle of real-time verification in tax control measures, i.e. activities of taxpayers were also monitored for the period during which the verification took place; and

- reduction in the number of taxpayers excluded from the VAT register.

Application of the “Consult First” Principle in Control Measures

The ‘Consult First’ principle was applied in **3089 control measures**, resulting in taxpayers themselves additionally declaring taxes in the amount of **EUR 5.3 million**. “Consult first” was applied:

- in **2240 cases**, providing consultations on the application of laws and regulations;
- in **373 cases**, negotiating with officials of companies on an increase in salary;
- in **376 cases**, inviting to correct tax returns for periods which have not been audited; and
- in **97 cases**, providing consultations with regard to new technical requirements for electronic cash registers.

Real-time Verification Principle

In order to minimise the possibilities for a taxpayer to continue causing losses to the State budget during the tax audit, application of the real-time verification principle launched in 2018 in the tax audit process continued. In 2019, this principle was applied in 152 tax audits or 31% of total audits performed.

Measures for Eliminating ‘Envelope’ Salaries

The following measures were performed:

- **87 educational seminars** were organised for taxpayers on illegal employment and ‘envelope’ salaries;
- as the result of preventive measures, **5017 employees were legalised** and additional contributions of **EUR 2259.2 thousand** were paid into the budget;

- thematic inspections of 1346 employers were performed and fines of **EUR 78.2 thousand** were applied in 150 cases; and
- **83 tax audits** were performed within the framework of which MSSIC and **fines of EUR 4263.7 thousand** as well as PIT and fines of **EUR 1797.7 thousand** were additionally calculated.

As a result of control measures, most additional payments to be made into the budget due to ‘envelope’ salaries were in the field of transport, construction and security services.

There were 22 criminal proceedings conducted by the SRS Tax and Customs Police Department, including 10 criminal processes commenced in 2019, filed under Section 2171 of Criminal Law for violation of work remuneration provisions; four criminal proceedings were transferred to the Public Prosecutor’s Office for Investigation of Financial and Economic Crimes for criminal prosecution.

Electronic Working Time Accounting System (EWTAS)

EWTAS was introduced to ensure electronic registration and accounting of working time of persons employed on construction sites and the storage and transfer of registered data for inclusion in the single electronic working time accounting database. The introduction and usage of the EWTAS was tested in 97 thematic inspections for 53 general contractors of construction works; it was established that:

- 230 employees were not registered at **53** construction sites, including 216 employees of subcontractors and 14 employees of general contractors;
- on **13** construction sites, EWTAS did not ensure registration of full information; and
- on **seven** construction sites, EWTAS had not been introduced.

During 50 thematic checks, registration of the working time of sub-contractor's employees in EWTAS and reflection of hours worked on

the construction site in the taxpayer's accounting records was checked and the following infringements were revealed:

- EWTAS registered workhours were not included in the calculation of wages for 46 employees of 11 subcontractors;
- EWTAS registered workhours exceeded the hours listed for the calculation of wages of 24 employees of four subcontractors by 10–20%; and
- EWTAS registered workhours exceeded the workhours listed for the calculation of wages of seven employees of two subcontractors by 20%.

660 inspections were performed for subcontractors whose employees were working on a construction site.

One of the priority industries for which enhanced supervision was continued was **car trading**. Tax control measures for companies in the automotive sector were organised in three directions.

With regard to registered prohibitions on alienation, when receiving information from SJSC “Road Traffic Safety Directorate” (‘RTSD’), enhanced risk analysis was performed for **1321 taxpayers**:

- 70 decisions were adopted on prohibition of the alienation of a vehicle;
- 15 thematic inspections were performed, including:
 - 13 taxpayers introduced changes to their tax declarations during thematic inspections in the amount of EUR 56.7 thousand;
 - as a result of six thematic inspections, a fine of EUR 3.5 thousand was imposed; and
- one taxpayer, as a result of the data compliance verification, was determined an additionally payable amount to the budget of EUR 9.2 thousand.

Inspections for dealers of second-hand vehicles

144 thematic inspections were performed for 140 dealers of second-hand vehicles, revealing infringements in 99% of inspections:

- inspections most frequently revealed that traceability of a transaction was not ensured, provisions of the Cabinet Regulation No. 876 of 18 December 2007 “Regulations for Sale of Vehicles and their Numbered Aggregates” not complied with, and infringements identified in the completion and submission of declarations and accounting records and drawing up of corroborative documents;
- following the SRS invitations, 91 taxpayers declared taxes in the amount of EUR 212.5 thousand;
- as a result of 97 inspections, a fine of EUR 82.3 thousand was imposed and 24 vehicles were confiscated; and
- economic activity of 10 taxpayers was suspended.

Checks of documents submitted for registration of vehicles imported from the EU.

Assessment of documents submitted for registration of vehicles by natural and legal persons is performed where the vehicles are registered, receiving explanations from persons undertaking the first registration of vehicles imported from EU countries.

Having evaluated documents submitted by **1253** taxpayers, registration of vehicles was rejected in 24 cases.

Taxpayer submitted documents revealed:

- a possible reduction in the sales value of the vehicle in 130 cases;
- natural persons who may be engaged in an unregistered economic activity in 77 cases;
- suspicion of falsifying documents necessary for the registration of vehicles in 47 cases;
- different risks of non-taxation in 24 cases;
- seller found to be a taxpayer of another EU country, but vehicle actually purchased in the Republic of Latvia in 12 cases; and

- unjustified use by taxpayers of the trade number mark issued to another merchant intended for the transfer of vehicles to the place of sale or storage in four cases.

As a result of control measures, budgetary revenues in the car trading sector in 2019, compared to 2018, **increased by EUR 7.3 million** or 4.7%.

Detection and prevention of criminal offences

In the field of state revenue and customs matters, the following results were achieved in 2019:

- **1234 criminal proceedings** commenced, 137 less than in 2018;
- **251 criminal proceedings** were transferred for criminal prosecution, exceeding 2018 by 10;
- the amount of losses, established by criminal proceedings that the State was able to recover was **EUR 8.3 million**;
- the established amount of damage incurred to the state from criminal proceedings transferred for criminal prosecution was **EUR 4.2 million**;
- property acknowledged as criminally acquired and remitted to the state budget was **EUR 1.5 million**;
- operation of **19 organised criminal groups (OCG)** was detected and stopped: nine in the field of State revenues; four in the field of excise duty goods, five in the field of narcotic substances, and one in the field of fraud when importing merchandise;
- **47 criminal proceedings** commenced for non-declaration or false declaration of cash and/or money laundering. Arrests of **EUR 11.2 million** were imposed in criminal proceedings for non-declaration of cash and five criminal proceedings were sent to criminal prosecution; and
- **23 criminal proceedings** commenced on money laundering, six more than in 2018 and **11 criminal proceedings** were sent for criminal prosecution, six more than in 2018.

Major criminal offences detected

Most important **criminal cases commenced** in the field of State revenues and customs matters in 2019. Marijuana farms were discovered in Riga Region and the Lithuanian border area. Two criminal proceedings commenced against organised groups of persons engaged in cultivation and sale of large quantities of marijuana.



Photo: SRS

78.6 kg of hashish were found in a vehicle driven by a Russian citizen. Criminal proceedings commenced on the smuggling of a highly dangerous drug in large amounts.



Photo: SRS



Photo: SRS

Allegedly criminally obtained cash in the amount of **EUR 400 000** and **USD 500 000** was found on four Ukrainian citizens who arrived by private plane. Four criminal proceedings for money laundering and non-declaration or false declaration of cash on a large scale brought into or out of the Republic of Latvia when crossing the external border.

A group of persons who illegally traded alcohol made from crude smuggled alcohol was revealed. The **amount of prevented loss** in the form of outstanding excise duty and VAT was **EUR 583 thousand**. Criminal proceedings commenced against a group engaged in illegal manufacture, storage, transfer and sale of alcoholic beverages in large quantities.



Photo: SRS

Activities of **a criminal group** that evaded VAT payments and engaged in money laundering from January 2018 to June 2019 was

stopped, stopping losses of over **EUR 1 million** to the State budget according to initial estimations.

The most important **criminal proceedings transferred** to the prosecutor's office for criminal prosecution in 2019:

- **for payment of salaries not indicated** in the accounting records of a security guard company, without payment of PIT and without making MSSIC, against two persons. Losses to the State budget in large amounts was caused – **over EUR 117 thousand**;
- for **smuggling** of a particularly dangerous drug in large amounts – **78.6 kg hashish** – against a Russian citizen;
- for **non-declaration of cash** and **money laundering** in a large amount against the Armenian and Swedish dual citizen who attempted to bring over **EUR 31 thousand** into Latvia, in several currencies, without declaring it at the border;
- for **alleged legalisation of criminal proceeds** by a Russian citizen for the period of 2015-2019 of **EUR 2.3 million**; and
- for wide-scale **VAT fraud** against a natural person. Alleged activities resulted in losses of more than **EUR 2 million** to the State budget, **embezzlement of other persons' property** of more than **EUR 3 million** and **money laundering** of more than **EUR 700 thousand**. During criminal proceedings, **EUR 81.8 thousand** were recognised as criminally obtained, seized and credited to the State budget.

Prevention of money laundering

The SRS implemented the following to facilitate the struggle against money laundering and terrorism financing:

- **1060 on-site inspections**, based on risk analysis, and **1055 remote inspections**, in total, 5.5 times more than in 2018;
- **289 decisions** on imposition of penalties of EUR 440 765 on identified infringements;

- **trained 1276 persons** in 14 seminars on the application of the AML/CFT Law to the law subjects and representatives of supervisory bodies;
- **introduced e-learning module** for training used by 295 taxpayers, and **208** taxpayers obtained a certificate of completion;
- **931** consultations by phone, face to face and electronically; and
- **10 cases** prepared, as the result of inspections, for sending to law enforcement authorities.

According to the Plan of Measures for the Prevention of Money Laundering and Terrorism Financing for the period until 31 December 2019, the SRS implemented a number of important measures:

- human resources increased by 25 positions to strengthen the capacity in the field of AML/CFT;
- sectoral risk assessments developed;
- Cabinet Regulation No 406 of 27 August 2019 "Regulations Regarding the Amount of Information provided by the State Revenue Service on Politically Exposed Persons and the Procedure for Requesting, Issuing and Storage of Such Information" developed and issued;
- proposals and draft laws prepared for the licensing of real estate agents, tax advisers and accountants; and
- three new risk criteria for analysis of the AML/CFT law subjects developed regarding the reputation risk and the sanctions risk.

2.3. Optimisation of Internal Processes and Efficiency Increase

Customs control support centre

A customs control support centre was established to perform risk analysis of summary declarations, 24/7 customs risk profiling and information exchange, monitoring customs control processes, centralised analysis of scanned images and analytical support for the SRS departments around the clock.

Remote and centralised analysis of scanned images gradually introduced. A remote analysis of scanned images from Ventspils Port CCP, Liepāja Port CCP and Riga Free Port CCP, as well as Grebneva CCP and Silene CCP takes place at Talejas iela 1, Riga, using the information system BAXE.

Improved SRS processes

- SRS employees use the Document Management System (DMS) when submitting applications to employers: paper documents decreased by 26.9 % and electronic documents increased by 23.06 %;
- automated solutions for electronic circulation of overtime documents, work and vacation schedules and other internal documents in DMS through the DMS Case Management Module and formation of e-files began, such as staff e-files, procurement cases, disciplinary proceedings;
- a new nomenclature of SRS cases based on tasks and processes identified, thus reducing the total number of nomenclature cases by 29% and the number of paper cases by 52%, increasing the number of cases by electronic means;
- application for vacations and leaves, execution and approval of business trips are performed on *Horizon WEB* and on the self-service portal HOP; and

- hybrid personal file formation process – electronic documents are also included in personal files of SRS employees, decreasing the amount of paper documents.

Optimised car park

The SRS car park was reduced by 12 vehicles with over 15 years of service. The number of trips without the use of the SRS drivers increased by 11%, which allowed reduction of the number of drivers and more efficient use of vehicles.

2.4. Implementation of the Most Important SRS Projects

Active implementation of the most important SRS projects took place:

- modernisation of tax information services (project co-financed by the ERDF);
- E-customs (1st stage) (project co-financed by the ERDF);
- technical assistance for implementation of medium-term tax guidelines (SRSS funding);
- modernisation and extension of the Vehicle and Container Automatic Identification System (VCAIS) (EK *Hercule III*, *OLAF*);
- introduction of tobacco products traceability system (*Track&Trace*); and
- receipt lottery.



NACIONĀLAIS
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EIROPAS SAVIENĪBA
Eiropas Reģionālās
attīstības fonds



IEGULDĪJUMS TAVĀ NĀKOTNĒ

3. Statistics on Services Provided by the SRS

SRS clients were ensured with access to 227 public services, including request and/or receipt of 219 (97%) of services electronically. The following services are available in person or by post:

- cash declaration on the border;
- registration in the *REX* system;
- notification of transportation of excise goods;
- statement on authorisation of TIR procedure and TIR carnets;
- application to customs authorities for protection of intellectual property rights;
- certificates of origin or status of goods;
- customs clearance of goods outside the location of or the business hours of the customs office; and
- performance of analyses for determination of the Combined Nomenclature code and *TARIC* code.

The SRS provides services in the following three main fields: tax administration services — 42%, excise duty services — 30% and customs services — 28%.

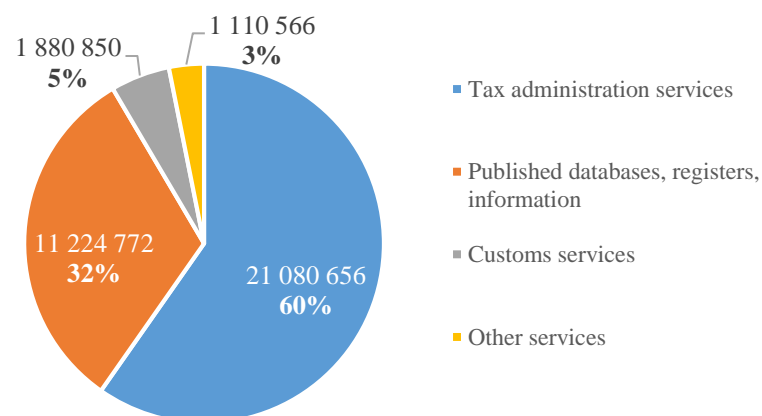


Fig. 11. Services provided by group, 2019

In total, the SRS provided 35 296 844 services to SRS clients, which was 25 % more than in the previous year.

In 21 080 656 cases, SRS clients used tax administration services, which was **11%** more than in the previous year. Most tax administration services were provided for:

- reports, statements, notifications — 14 646 549;
- payment of taxes, refunding, extensions of term — 3 409 672; and
- declarations — 2 171 699.

Taxpayers used information from databases and registers published by the SRS in 11 224 772 cases, almost twice as much as in the previous year. The most commonly used information from SRS databases was:

- SRS VAT Payer Register – 5 333 458;
- Register of Tax Debtors — 2 829 278;
- public information on the declarations of public officials — 1 622 433;
- Register of Special Permits (Licences) and Certificates for Activities with Excise Goods — 898 074; and
- Register of Natural Persons – Performers of Economic Activities — 269 911.

1 880 850 services were provided in the customs field, twice as many as in the previous year, including the most requested:

- notification of transportation of excise goods – 897 775;
- customs procedure – transit – 449 226;
- customs procedure – export – 199 210;
- customs procedure – release for free circulation – 188 408; and
- temporary storage declaration to place goods on temporary storage – 61 514.

Other services were provided in 1 110 566 cases, including:

- consultations on the application of laws and regulations — 821 245;
- replies to inquiries on issues in the competence of the SRS – 55 040;

- SRS references on the rights of an individual in their particular legal situation — 697;
- services for public officials — 78 296;
- e-services on the State administration portal www.latvija.lv – 107 522;
- excise duty — 47 465; and
- chargeable services – 301, adding EUR 31 699 to the budget.

Table 2. Chargeable services provided by the SRS, 2019

Chargeable service*	Number
Selling of strict accountancy seals	188
Report on the conformity of marked (labelled) oil products to the requirements of regulatory enactments of the Republic of Latvia	103
Performance of analyses for the determination of the Combined Nomenclature code and <i>TARIC</i> code	8
Customs clearance of goods outside the location of or business hours of the customs office	2

*In accordance with the Cabinet Regulation No 345 of 19 June 2018 “Price List of SRS Chargeable Services”

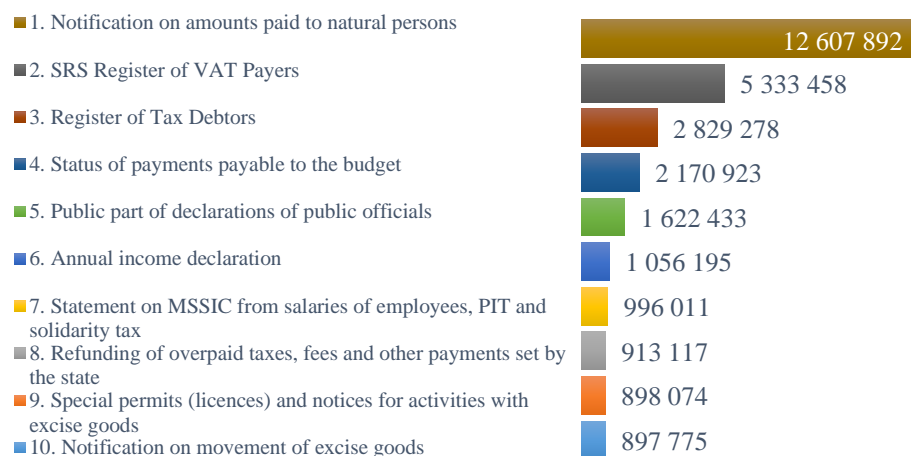


Fig. 12. ‘Top 10 services’, 2019

25 services were requested and provided for in fewer than 10 cases and 14 services were not required at all. The ten most frequently received services constitute 83% of all services provided.

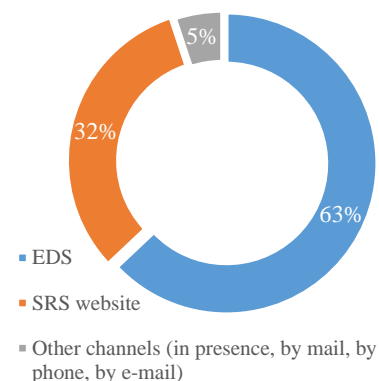


Fig. 13. Most significant channels for requesting and receiving SRS services

Compared to 2018, the number of services provided in person increased by 2.3%, due to the creation of a new service, “Notification of Movement of Excise Goods”, provided at border crossing points. In 2019, this service was provided in 897 775 cases. This affected the total reduction in the share of services provided by the SRS in electronic form by 0.6%.

Guidelines were updated for effective written communication with clients, letters for requesting additional information from taxpayers simplified, and preparation of draft decisions following guidelines developed by the SRS began. By simplifying replies, response time was reduced: in 96% of cases, electronic replies were provided within one to five days.

4. Use of Financial Resources

4.1. State Budget Funding and Its Use

In accordance with the Law on the State Budget for 2019 and the Orders of the Minister for Finance of 2019, the SRS used the funds allocated in the budget in compliance with the approved programmes and sub-programmes of the basic budget, covering of revenue collection expenses (revenues), cost estimates and financing plans of the planned expenditures.

Table 3. Total funding allocated to the SRS in 2019 and its use, EUR

No	Financial indicator	2018 (actual implementa- tion)	2019	
			approved by Law and orders of the Minister for Finance	actual implementat- ion
1.	Covering of financial resources expenses (total)	125 495 301	122 953 088	122 452 919
1.1.	subsidies	124 320 697	121 574 805	121 457 939
1.2.	chargeable services and other revenues	111 911	208 451	195 204
1.3.	foreign financial aid	907 672	1 155 132	785 076
1.4.	transfers	155 021	14 700	14 700
2.	Expenses (total)	124 906 662	123 206 313	122 506 093
2.1.	maintenance expenses (total)	108 884 860	111 522 013	111 251 173
2.1.1.	current expenses	108 635 464	111 308 646	111 051 417
2.1.2.	subsidies, grants and social allowances	8477	193 409	179 799
2.1.3.	current payments to the European Community budget and international cooperation	58 547	19 958	19 957
2.1.4.	transfers of maintenance expenses	182 372	0	0
2.2.	expenses for capital investments	16 021 802	11 684 300	11 254 920

4.2. SRS-administered total budget revenues, 2019

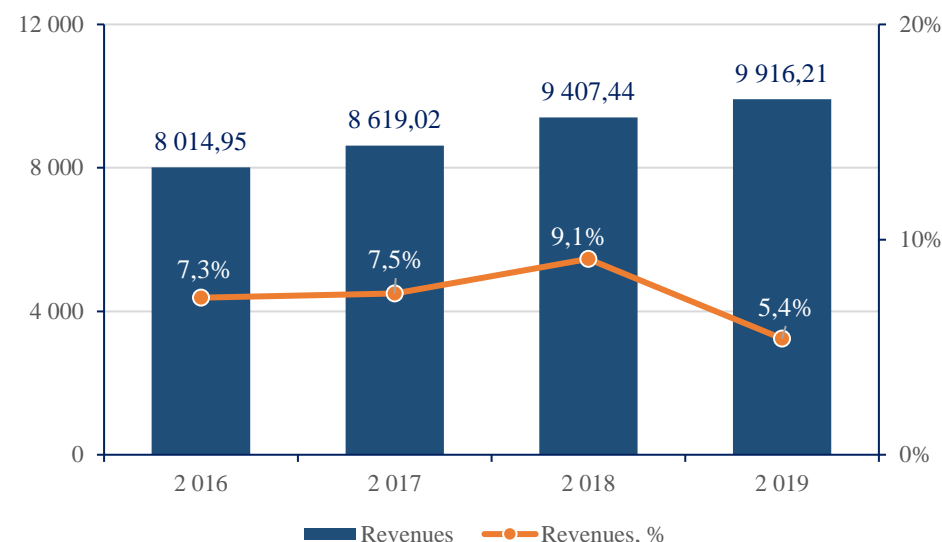


Fig. 14. Budget revenues administered from 2016-2019, million EUR

The total budget revenues administered by the SRS amounted to EUR 9916.21 million, an increase of EUR 97.27 million or 1% more than planned, including collected tax revenues of EUR 9452.62 million or 0.9% more than planned; the amount of non-tax revenues collected was EUR 463.59 million or 3.4% more than planned.

Tax and non-tax revenues administered and deposited to the general budget were EUR 508.77 million or 5.4% more than in 2018.

Use of Budgetary Programmes and Sub-programmes and Performance Results

State budget funds allocated and used by the SRS were EUR 122.5 thousand or 99.4% of the planned amount.

Table 4. Use of funding allocated for implementation of budgetary programmes and sub-programmes in 2019

Programme/ sub-programme	Funding used in 2019	
	thousand, EUR	% of planned
33.00.00 programme "Ensuring State Revenue and Customs Policy"	118 202.3	99.9
38.02.00 "Implementation of European Union Cooperation Projects and Activities"	1.1	16.1
62.09.00 sub-programme "Implementation of Projects and Activities of the European Regional Development Fund (ERDF)"	3 452.4	99.1
70.07.00 sub-programme "Compensation of Travel Expenses of Latvian Representative when Traveling to Meetings of Working Parties of the Council of the European Union and to Council Meetings"	15.6	100.0
73.06.00 sub-programme "Financial Resources Allocated Within the Framework of Agreements between the European Commission (with Participating Member States) and Tobacco Manufacturers"	120.8	20.5
73.07.00 sub-programme "Projects Financed by the European Commission for Improvement of Internal Market within the System of Taxes and Customs"	364.7	92.5
73.08.00 sub-programme "Projects Implemented by the State Revenue Service in the Field of Protection of Financial Interests"	349.2	86.3

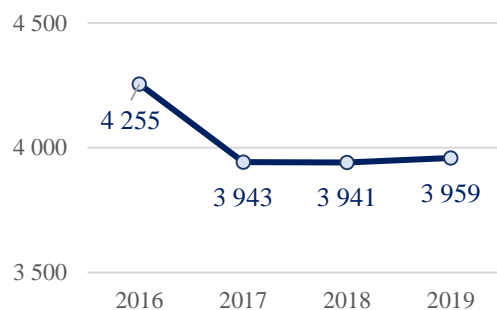
4.3. Funding Allocated for Implementation of Priority Activities

The Cabinet, in examining the applications of priority activities, i.e., activities that comply with the Latvian National Development Plan for 2014-2020 and other development planning documents, approved funding for the SRS for implementation of seven priority activities in 2019.

Table 5. Funding allocated for priority activities, 2019

Name	Funding, EUR
1. Enhancing the capacity of institutions of the Ministry of Finance, including combating informal economy, attaining strategic goals of the SRS (including for remuneration of customs officers, inspectors and financial police officers)	2 272 661
2. Continuation of SRS administrative structural reform, including an internal agreement on the market value of the transaction and enhancement of transfer pricing capacity	1 500 000
3. Elimination of money-laundering and terrorism-financing risks	533 163
4. Modernisation of tax information services (including creation of the Payment Administration Information System and provision of functionality)	800 000
5. Creation of the second SRS data centre	96 800
6. Establishment of the joint tax and customs police and implementation of change of subordination of the Internal Security Division	275 880
7. Enhancing analytical capacity in the field of tax revenues, risk management, and segmentation of taxpayers	564 239
8. Implementation of Guidelines of the State Tax Policy for 2018-2021	443 849
9. Implementing the Receipt Lottery to reduce the shadow economy in riskier sectors	250 000
10. Funding allocated in relation to amendments adopted to the Law on State Social Insurance (Cabinet Minutes No. 40, Paragraph 43, 22 August 2017)	294 152
11. Strengthening SRS capacity	1 300 000
Total:	8 330 744

5. Personnel



At the end of 2019, the SRS had 3959 positions, but the actual number of employees was 3612: 33 positions were eliminated, and 51 positions were created to ensure the reinforcement of cash movement control.

In 2019, the SRS entered into civil service and employment relationship with 224 officials and employees, but terminated it thereof with 280 officials and employees. Thus, the personnel turnover coefficient was 13.9%, the personnel restoration coefficient was 6.2%, and the personnel leaving coefficient was 7.7% (the calculation of coefficients does not include data on the reduction of the number of officials and employees).

The average monthly salary of the SRS employees was EUR 1423, exceeding the amount in 2018 by 1.4% and in 2017 by 12.4%.

Fig. 15. Dynamics of planned Positions, 2016-2019

Out of the total number of the SRS employees:

- 89% are civil servants and 11% are employees;
- 74% are women and 26% are men; and
- 96% have higher education.

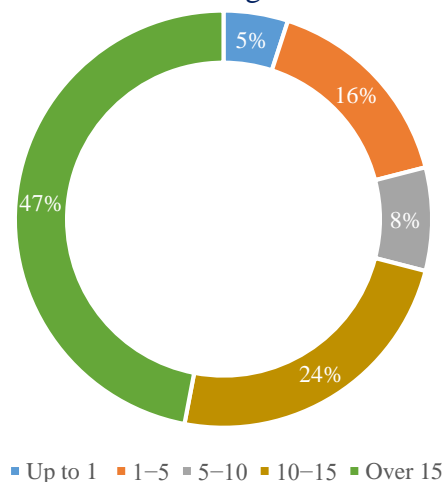


Fig. 16. Division of employees by length of service, 2019

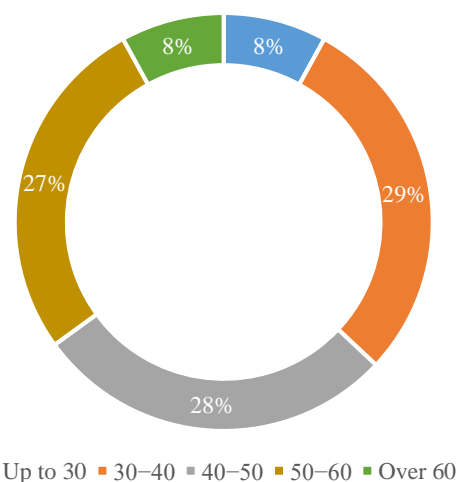


Fig. 17. Division of employees by age, 2019

574 employees were given awards for professional, honest and selfless work, significant personal contribution in the development of the SRS and fulfilment of objectives:

- MoF awards — two;
- SRS awards — 280; and
- Jubilee badge “Latvian customs - 100” — 292.



34 employees were disciplined for violations: 2 received a disciplinary sanction “reprimand”, 20 employees had their monthly salary reduced temporarily and 12 employees were dismissed.

SRS employees took part in 303 various training events (courses, seminars); 8% of training events were ensured by in-house lecturers. Average time spent in training was 11.2 hours per participant. Main training topics: legal and administrative matters — 23%, communication — 21%; customs matters — 20%; computer sciences and information technology — 11% and combatting crime — 9%. 127 training courses were available for professional development on the e-training platform.

6. Communication with the Public

To promote the public's understanding of the significance of fulfilling tax and customs obligations in improving the welfare of the State and to enhance the reputation of the SRS as a modern and efficient, fair and respectable State administration institution, open and understandable to clients, active and purposeful communication was implemented.

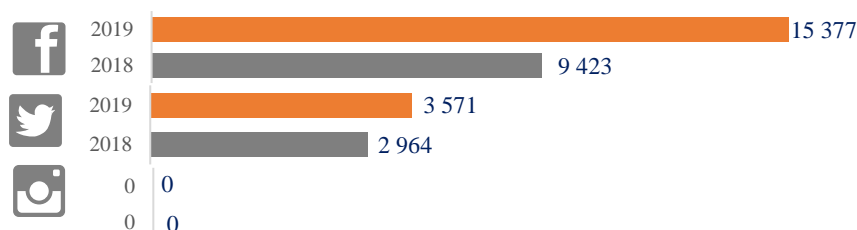


Fig.18. Number of SRS followers in social media

Cooperation with mass media

- six press conferences and media briefings were organised on especially important matters of SRS activities;
- various media events were organised about the most significant changes in laws and regulations within the framework of tax reform;
- 225 press releases were created on a variety of SRS issues, including changes to tax reform, the launch and conduct of the Receipt Lottery, tax deadlines, new services in taxation and customs, progress in combating the shadow economy, “envelope” salaries, criminal offences in the field of state revenues, etc.; and
- a special seminar was organised for the media “How and why is it important to submit an annual income declaration this year?” where a number of comments and explanations were provided.

Educating and informing clients:

- 322 seminars were organised throughout Latvia, including:
 - 163 for newly registered taxpayers;
 - 39 on the application of the differentiated non-taxable minimum, explaining how to avoid paying additional PIT in the future;
 - 8 on topical issues in the application of tax laws and regulations.
 Several thematic seminars were organised in cooperation with LRATC, RRS, LCCI, and other institutions on topical issues of taxation. The seminars were attended by more than 5000 participants. In addition, 12 video seminars were placed on the SRS website.
- 158 methodological and informational materials on tax issues, 293 presentation materials, including 41 infographics, were prepared, and opinion articles, instructions, and booklets were placed on the SRS website and in social networks;
- 9 informative videos on the Receipt Lottery and five explanatory videos on annual income declaration were created;
- an informative booklet describing major changes in tax reform was developed about obligations to supplement tax payments by applying the differentiated non-taxable minimum and the ways the tax difference could be reduced or deleted. The booklets are available at 27 SRS client service centres throughout Latvia;
- 27 information materials and explanations were published on the application of customs procedures, changes in travel and trade with the United Kingdom following Brexit, clearance of postal items, conditions for transportation of food of plant origin in personal luggage, new features of customs information systems and other topical issues;
- A separate “Brexit” section was created on the SRS website, providing information on the conditions for moving goods during the transition period;

- participation in the “Lamp” festival to inform people about the Receipt Lottery – how to participate – and its objectives: encouraging consumers to demand and entrepreneurs to issue receipts for goods and services, thereby promoting a change in culture in society and together, in a friendly way, saying “NO” to the shadow economy; and
- participation in the “Balttour 2019” exhibition – customs experts advised participants on travel-important customs issues related to movements of goods across the EU external borders, including various prohibitions and restrictions and imports and declarations of goods.

Participation in five informative campaigns with other institutions:

- ‘Digital Week 2019’ (MoEPRD);
- ‘Days without Queues 2019’ (MoEPRD);
- a social responsibility campaign for merchants on responsible sales of alcoholic beverages in Latvia (LAIA, LTA and the State Police);
- “#FraudOff” (MoF and more than 20 State institutions and organisations representing entrepreneurs); and
- ‘My Latvia. Do it Digitally’ (MoEPRD and SRDA).

Educating and informing schoolchildren and young people:

- ‘Shadow Day’ project organised by ‘Junior Achievement Latvia’, in which 76 pupils ‘shadowed’ SRS employees whose daily work was related to various areas of SRS activities;
- for the first time, SRS participated in “Career Day” organised by RTU to present the SRS to students as an interesting and valuable place of internship and an attractive future employer;
- on 18 April 2019, with the support of SRS, RTU opened a Customs Control Laboratory to strengthen the practical skills of students in customs control and prepare them for labour market requirements;
- “Open Door Day” organised by the State Chancery to provide young people with the opportunity to find out, learn and understand the work of the State administration;

- youth conference in Kipsala organised by Junior Achievement Latvia, educating young people in the field of taxation;
- SRS dog handlers had presentation shows with service dogs in various training institutions throughout Latvia (Kraslava, Ventspils, Babite, Riga, Daugavpils, Kegums) to acquaint pupils with the specifics of work of customs dog handlers and skills needed for it, as well as to inform pupils about the harm caused by drugs and the responsibility for using or distributing them.
- 9 educational tours were organised for pupils and young people, as well as two lessons for children in the “Little Director” camps organised by SIA “Izdevniecība iŽurnāli” about SRS and taxes, their meaning and nature;
- as of September, the SRS, as the only national regulatory authority, signed a memorandum of cooperation on the involvement in the “Ready for Life” school programme, where professionals from different areas go to schools to give young people some knowledge of real life and work. SRS teachers conducted 25 lessons to pupils in Grade 9 in various schools on the topic “I know and understand what taxes are, what the benefits are from payment of taxes, and what are the risks when they are not paid”;
- 9 excursions for pupils and students, during which they were familiarised with the areas of activity, main tasks, and career opportunities, as well as about the significance of tax payments and their effects on each individual and the public in general; and
- an educational game was developed on tax and customs issues for players of different ages “Meža VIDū” (*In the Middle of the Forest*).

International events:

- 15 foreign delegations with 330 representatives visited;
- 3rd meeting of *EC Fiscalis* 2020 workgroup on the *EUROFISC* network, 14-16 May 2019;
- annual meeting of the heads of tax and customs authorities of the Baltic States, 30-31 May 2019;

- *EC Fiscalis 2020* seminar on the introduction of a virtual assistant in the tax administration, 8-9 October 2019;
- within the framework of the *EC Fiscalis* programme, three *MANITC IT* workgroup of cooperation expert meetings and two project group meetings were organised in Latvia.

Awarding Large Taxpayers

On 18 April 2019, the 22nd SRS Large Taxpayers Awards event took place to promote cooperation and thank the largest taxpayers of 2018. Awards created by an artist and certificates of appreciation were presented to 20 largest taxpayers of 2018 in various categories.



Cooperation with partners in the public, non-governmental and private sectors

To improve dialogue with unions and entrepreneur associations, non-governmental organisations, and other interested parties and to examine and resolve particular tax administration issues together with MoF experts, the SRS Tax Application Sub-board of the SRS Consultative Board was established. It was organised to promote a common understanding on the application of tax regulations by eliminating problems in fulfilment of voluntary obligations by taxpayers due to incorrect application of regulations, as well as by facilitating the development of uniform and unequivocal explanations on the application of tax regulations to taxpayers.

Ten Consultative Board meetings took place:

- 2 meetings of the SRS Tax Consultative Board;
- 4 meetings of the SRS Development Consultative Board;
- 2 meetings of the Customs and Entrepreneurs Consultative Board;
- 2 meetings of the SRS Excise Duty Consultative Board.

Signed and renewed cooperation agreements

In order to jointly fight against tax evasion and ‘envelope’ salaries, promote fair competition conditions, and encourage interest among to demonstrate initiative and understanding for fulfilling tax obligations in their sector, the SRS signed three new cooperation agreements:

- 12 February 2019 with the Association of Baltic Metal Scrap Processors;
- 4 April 2019 with the Latvian Electrical Material Wholesalers' Association;
- 1 August 2019 with the Latvian Vehicle Traders Association.

Concurrently, three cooperation agreements were renewed with the Latvian Agricultural Cooperatives Association, Latvian Association of Window and Door Manufacturers and Latvian Authorised Automobile Dealers Association by introducing necessary changes to the terms and conditions of the agreements.

In total, agreements with associations of 33 industries were signed by 30 December 2019.

In order to strengthen cooperation with other institutions for improving customs control processes, the SRS entered into a cooperation agreement with the Latvian Post on 11 November 2019 and an interim agreement with the Food and Veterinary Service on 6 May 2019.

Celebrating the centenary of the establishment of Latvian Customs

- a special award was granted – a jubilee badge “Latvian Customs – 100” – to SRS officials and co-partners;
- international conference jointly organised by SRS and RTU “Is Customs Ready for Tomorrow?” held to improve the role of customs in ensuring security and use of innovation in customs control;
- Latvijas Pasts issued a special envelope “Latvian Customs – 100”, 1000 copies;
- the “Latvian Customs – 100” team participated in the “Tet Riga Marathon”; the fastest runners also participated in the State Border

Guard's organised run around the Latvian border and in the formal closing event at the Riga Brethren Cemetery; and

- for the first time, the RTU Customs and Tax History Museum participated in the Museum Night, allowing visitors to look into the daily activities of customs officers and to see how ambushes of smugglers were detected through technical means and with dogs, to find out how counterfeit goods could be distinguished from real ones, and which souvenirs are better not brought home from abroad. Dog handlers described the specifics of work in the search for narcotic drugs and smuggled cigarettes and the role of dogs in customs – how they are trained and what they can do. The museum was attended by almost 1200 visitors.

Achievements of customs dog handlers

- On 8-13 September 2019, a large-scale international competition was held in Russia for dog handlers with tobacco and cash-seeking dogs, where the Latvian team of customs dog handlers won gold in the overall competition; and
- On 14 September 2019, a customs' dog handler with service dog Mirko ranked tenth in professional class B at the 14th International Service Dog Biathlon Competition "Latvia 2019" of the State Border Guard College.



Awards, recognitions and evaluations received

SRS received the following awards, recognitions and evaluations:

- December 13, at the State Chancery, the Chief Tax Inspector of the SRS Daugavpils Client Service Centre received a Certificate of Appreciation for responsive and professional client service; and
- The Latvian State Radio and Television Centre summed up the e-signature champions, whose employees made the most active use

of secure electronic signature – the SRS was the second most active user of e-signatures.

SRS studies

Studies performed found that:

- assessment on the satisfaction in cooperation by sectoral associations with the SRS (on a scale of 1 to 10) was 7.94 (exceeding 2018 by 0.13 points);
- satisfaction of clients with the speed, convenience and understandability of services provided (on a scale of 1 to 10) was 7.35 (exceeding 2018 by 0.2 points);
- satisfaction of the SRS employees with their job was 86%, which is 3% lower compared to 2017.

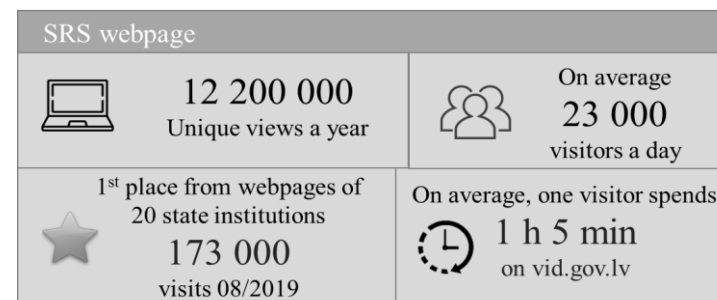


Fig. 19. Top of websites of state institutions, GEMIUS data, 2019

7. Activities Planned for 2020

New SRS Development Strategy for 2020–2022

The SRS Development Strategy 2020-2022, which aims to promote voluntary tax compliance, sets four strategic objectives:

1. Services compliant with client needs — we know our client;
2. Trust-oriented communication and cooperation — we trust our client;
3. Smart monitoring for ensuring fair business environment and welfare — we help change behaviour in fulfilling obligations by sharing information and knowledge;
4. Professional, loyal, honest, responsible and cooperative employees.

Major directions of activities

In order to improve compliance with voluntary tax obligations, reduce the level of the shadow economy and strengthen public protection, priorities will be:

- minimising “envelope” wages;
- segmenting taxpayers and developing supporting services;
- preventing money laundering and restricting circulation of cash of illegal origin (*Moneyval* recommendations);
- restricting illegal movement of excise goods and minimising drug trafficking; and
- restricting VAT fraud.

Regardless of industry, size of a commercial company or other factors, the interest in voluntary taxation will be stimulated.

Planned research:

- study on the quality of taxpayer services (to be performed by SKDS);
- study on the quality of customs client services (to be performed by SKDS);

- assessment of satisfaction of sectoral associations with cooperation with the SRS (to be performed by the SRS).

Planned international events

In view of the uncertainty of the current situation, it is not possible to forecast the planning of future events. However, it cannot be excluded that various international events will take place on site or in the form of video conferences:

- IOTA 24th General Assembly;
- annual meeting of the heads of EU tax administrations;
- OECD Forum on Tax Administration (FTA);
- the 3rd meeting of the 6th area of activity ‘TNA — Transaction Network Analysis’ of the *EUROFISC* network (EC *Fiscalis 2020* programme);
- meeting of the heads of tax and customs authorities of the Baltic States.

Impact of the emergency situation on the risks of fulfilment of tax obligations in 2020

Pursuant to the statement by the Director-General of the World Health Organisation on 30 January 2020 that the outbreak of Covid-19 is to be regarded as an internationally significant threat to public health and the recommendations of the European Centre for Disease Prevention on monitoring of cases of Covid-19 as well as Cabinet Order No 103 of 12 March 2020 announcement of an emergency situation, the SRS has assessed and identified risks and uncertainties regarding the impact of Covid-19 in relation to activities planned in the coming years and ensuring operational continuity and implementation of additional measures.

The Covid-19 pandemic factor is expected to have a significant impact on the risks of fulfilment of tax obligations in 2020 and the execution of the tax revenue plan:

1. The introduction of a state of emergency and the change in behaviour of public consumption will have a significant impact on the taxable base, reducing VAT revenues and, in time, PIT and MSSIC revenues. Covid-19 will have a special impact on sectors related to the provision of services to clients on site (e.g. accommodation, catering, beauty, entertainment and cultural events) and the production and sale of non-essential items (e.g. car sales).
2. The resulting economic can create preconditions for the rise of the shadow economy. Until 2019, in view of the positive trends in economic development, there was a trend of declining tax gaps (i.e. undeclared tax liabilities), which had a high correlation with GDP growth rates. In times of economic downturn, a scenario for increasing tax gaps is possible.
3. State aid to companies affected by Covid-19, in the form of an extension of the furlough allowance and the period of payment of taxes, poses new risks for fulfilment of tax obligations related to the unjustified application and receipt of State aid. To reduce this risk, the SRS reinforces the control of aid-granting processes, as well as performs analysis of third party information and control measures for beneficiaries.

The SRS provides analytical accounting of the expenditure of the 33.00.00 programme “Provision of State Revenue and Customs Policy” in relation to the costs resulting from the influence of Covid-19 for the continued operation of the institution (e.g. purchase of disinfectants and personal protective equipment, changes in information systems, purchase of hardware).

Abbreviations Used in the Report

DWS – Data Warehouse System
 DMS – Document Management System
 EWTAS – Electronic Working Time Accounting System
 EDS – Electronic Declaration System
 EC — European Commission
 ECDPS – Electronic Customs Data Processing System
 ERDF — European Regional Development Fund
 EU — European Union
EUROFISC — Network of National Tax Administration Institutions
 MoF — Ministry of Finance
 PIT — personal income tax
 GDP — Gross Domestic Product
 RSS – Rural Support Service
 LAIA – Latvian Alcohol Industry Association
 ICTAL — Information and Communication Technology Association of Latvia
 LRATC – Latvian Rural Advisory and Training Centre
 LTA – Latvian Traders’ Association
 LCCI – Latvian Chamber of Commerce and Industry
 MAIS – Payment Administration Information System
 CoM — Cabinet of Ministers

CCP — customs control point
 AML/CFT – Prevention of Money Laundering and Terrorism and Proliferation Financing Law
OLAF – European Anti-Fraud Office
 OCG — organised criminal group
 ECP – Enhanced Cooperation Programme
 CRPC — Consumer Rights Protection Centre
 VAT — value added tax
 RTU – Riga Technical University
 SKDS — Marketing and Public Opinion Research Centre SKDS
 SRSS — EC Structural Reform Support Service
TARIC — Integrated Tariff of the European Communities
 CIT – corporate income tax
 VADIS – Information system for declarations of state officials
 MoEPRD — Ministry of Environmental Protection and Regional Development
 SJSC — State Joint Stock Company
 SRS — State Revenue Service
 SRDA — State Regional Development Agency
 SSIA — State Social Insurance Agency
 MSSIC – mandatory state social insurance contributions