



Valsts ieņēmumu dienests

STATE REVENUE SERVICE DEVELOPMENT STRATEGY 2020-2022

(Amended 2021)

APPROVED
by Order of the Ministry of
Finance No 138
24 April 2020

AMENDED
by Order of the Ministry of
Finance No 622
21 October 2021

Riga 2021

In accordance with the Law On the State Revenue Service, the SRS is a direct administrative institution subordinate to the Minister for Finance that ensures the registration of tax payments and taxpayers, collection of State taxes, fees and other mandatory payments specified by the State in the territory of the Republic of Latvia, collecting taxes, fees and other mandatory payments for the European Union budget, and implementing customs policy and handling customs matters.

SRS motto Together we make Latvia even better!

SRS mission SRS is a reliable ally in tax and customs matters for fair business and public welfare

SRS vision Latvia is a country in which everyone voluntarily fulfils tax and customs obligations

SRS values

- Professionalism
- Cooperation
- Loyalty
- Honesty
- Responsibility

Strategic objectives

1. Services that meet client needs — we know our client.
2. Trust-oriented communication and cooperation — we trust our client.
3. Smart monitoring for a fair business environment and prosperity — helping to change compliance behaviour by sharing information and knowledge.
4. Professional, loyal, honest, responsible, and cooperation-oriented employees.



STRATEGIC OBJECTIVE 1

Services compliant with client needs — we know our client

SRS, a modern and professional organization, has been rapidly and comprehensively developing for over 25 years and continues to pursue this path. Significant improvements can be observed especially in work with clients. Exactly this area - services oriented to client needs - is the core of SRS operations, requiring constant development and further improvement. This is determined and affected by various internal and external circumstances – the environment in which the institution operates, inter alia, laws and regulations, the public, and economic and social circumstances in Latvia, the European Union, and around the world.

The SRS client is any Latvian entrepreneur, employer, self-employed person, or resident of Latvia and, in certain cases, foreigners and foreign entrepreneurs. We provide services to our clients in tax and customs matters and carry out activities to prevent money laundering.

We continue to implement a proactive approach to the elimination of the shadow economy, creating a more favourable business environment for both domestic and foreign entrepreneurs and providing the public with clear information about the application of taxes, simultaneously actively aspiring to development and wider use of e-services.

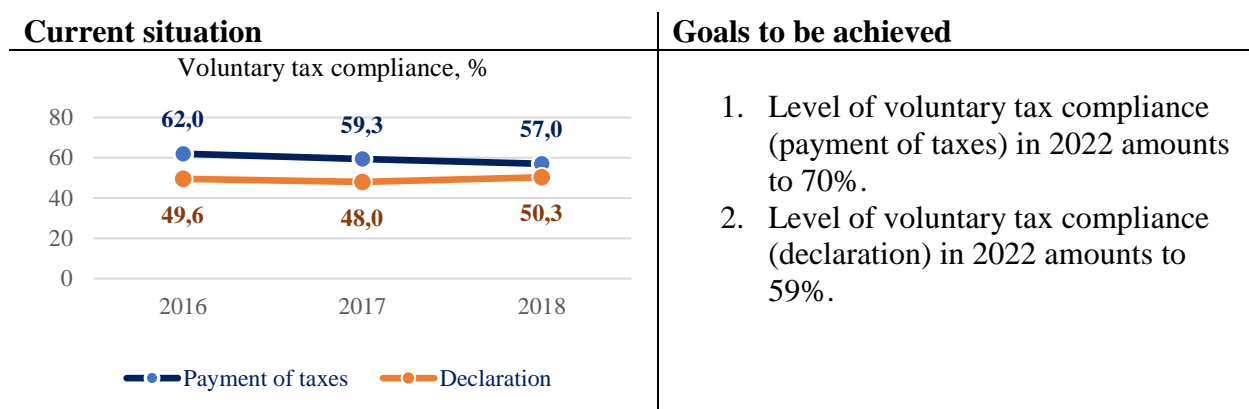
We continue to make the administration of Latvian tax and customs matters effective, fair and comprehensible — simple and convenient for honest taxpayers and consistent monitoring to deter offenders.

Progressive international practice shows that increased attention on studying and understanding taxpayer behaviour can develop analytics at a higher level, applying innovative approaches and new tools to segment taxpayers. This will be the basis for a completely new approach to provide the most suitable services to each segment of taxpayers to ensure consistent increase in voluntary fulfilment of tax and customs obligations by investing optimal resources.

The focus on the segmentation of taxpayers is ensured by projects initiated in 2019: the new version of the In-depth Cooperation Programme in which taxpayers are included in Gold, Silver or Bronze Levels and the Taxpayer Rating System through which taxpayers may inform partners about their reputations, tax payment discipline, and compliance of business indicators to general economic trends.

Research has commenced using the extensive volume of data and information available to SRS in conjunction with analytical tools, which will facilitate the development and introduction of an integrated obligation fulfilment strategy.

Development of the analytical function will include not only the taxpayer segmentation process but also the identification of potential risks and other methodologically complicated processes, which requires using information from various data sources, processing and analysing a large volume of data or creating complicated systems of indicators. This will make SRS a centre of knowledge and a data-driven institution.



Performance indicators

Performance results	Indicator	Numeric values of performance indicators			
		2019	2020	2021	2022
Majority of taxpayers pay taxes voluntarily — in full and on time	Level of voluntary tax compliance (payment of taxes), %	63.0	66.0	68.0	70.0
	Level of voluntary tax compliance (declaration), %	52.4	54.7	57.0	59.0
	Share of merchants generating tax revenues out of the total number of merchants, %	65.0	66.5	68.0	69.5
	Share of the total debt against the common budget revenues, %	9.81	8.88	8.42	8.07
Increased productivity and efficiency of collection	Collected revenues per SRS employee, thousand EUR	2,477	2,564	2,664	2,794
	Costs of one collected euro, EUR	0.0118	0.0115	0.0108	0.0102

Strategic initiatives

1. Integration of analytics and development of data management.

- Centralise and enhance the analytical function at the SRS.
- Develop data management infrastructure and increase added value of the use of SRS data to facilitate tax collection, preventing evasion of tax payments.

2. Segmentation of taxpayers according to tax compliance discipline during the entire life cycle of tax administration (360-degree approach).

- Introduce a universal information and communication (ICT) tool and use it for formalisation of indicators of tax compliance risks and storage of knowledge on the profile of risky taxpayers.
- Create a comprehensive tax compliance risk analysis system for taxes, customs, excise goods, prevention of money laundering and elimination of crime.
- Introduce an action recommendation system for taxpayers for improving compliance indicators.

3. Implementation of tax compliance strategy, providing appropriate services to each segment.

- Develop taxpayer segments for promoting fulfilment of tax obligations.
- Develop a set of services most suitable for each segment of taxpayers.

4. Services based on user experience and service design that is convenient and easy to use.

- Involve clients in the improvement, testing and development of SRS services.
- Introduce pre-completed annual income tax returns.
- Expand the Electronic Declaration System (EDS), facilitating the fulfilment of obligations set forth by laws and regulations for SRS clients.
- Improve customs services, ensuring availability of exemptions stipulated by the Union Customs Code in Latvia.



STRATEGIC OBJECTIVE 2

Trust-oriented communication and cooperation — we trust our client

SRS has always emphasised that clear and honest communication with the client plays a crucial role as it affects trust in the institution, which, in turn, has a positive impact on voluntary tax and customs compliance.

Over the last three years, one of our main priorities was improvement of communication with international taxpayers. Simultaneously, we paid special attention to the use of simplified language in communication with clients who require that. We improved telephone communication by introducing easy-to-use client identification for the consultation hotline, ensuring provision of personalised consultations.

The Foreign Investors' Council in Latvia has positively appraised improvements to EDS: creation of an online communication platform, observing the 'user experience' principle to ensure more effective communication with inhabitants and entrepreneurs.

Modern social processes cannot be imagined without digital tools. In its daily operations, SRS interacts with the majority of Latvian society, which means that SRS must successfully use various digital tools, which collectively form the digital ecosystem of SRS. SRS clients expect that increasingly modern and innovative digital solutions will be available.

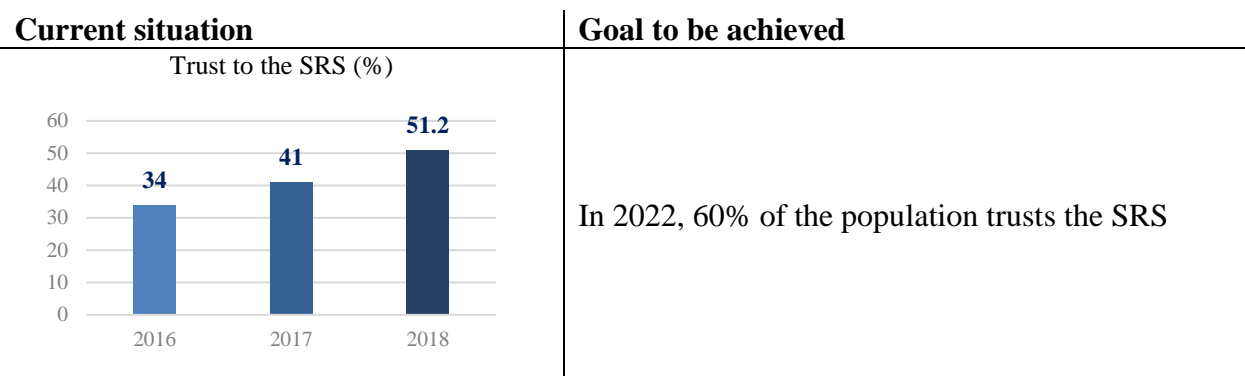
We will continue to develop communication and services to create a digital ecosystem that promotes voluntary tax and customs compliance.

We will pay particular attention to the change of attitude in communication with our clients: we will be open, truly listen and go in-depth into clients' questions and problems, as well as will be forthcoming, helpful and ready for cooperation in providing replies.

Our fundamental assumption is that most clients are honest, yet they often do not know or understand requirements of laws and regulations so require our assistance and support. By doing so, our clients will become more open to both receiving and providing information; moreover, client trust in SRS employees and SRS as an institution will increase in general.

We will ensure that every SRS employee in his/her daily work applies new guidelines developed for effective written communication with clients. Ensuring uniform and easily-understood communication will promote a client-oriented attitude and the image of SRS as a professional institution. We will study which communication channels, especially electronic channels, language and content correspond the best to specific groups of taxpayers to make our services even more accessible, convenient and easy to understand. Ease the comprehension of information on tax laws and regulations, we will improve video seminars on the SRS website.

The SRS has accumulated vast experience in cooperation with organisations representing entrepreneurs, administration institutions of other countries, and international organisations. We will maintain the highest quality of openness and cooperation. Our goal is to determine the wishes of entrepreneurs and inhabitants with regard to the SRS, to gain the best experience in the international environment in matters concerning administration of tax and customs cases, and battle the shadow economy together with partners.



Performance indicators

Performance results	Indicator	Numeric values of performance indicators			
		2019	2020	2021	2022
Level of public trust in SRS increased, promoting voluntary tax compliance (51.2% in 2018)	Level of public trust to the SRS, % (<i>according to results of a study ordered by the State Chancellery</i>)	52	55	57	60
	Share of SRS decisions appealed in court, %	31	30	27	25
Effectiveness of SRS e-management increased	E-index, points (max. 100)*	55	57	60	65
High level of client satisfaction with quality of service provided by SRS employees	Services provided by SRS to inhabitants are assessed as excellent or good, % (<i>according to results of a study ordered by the State Chancellery</i>)	74.0	74.0	74.0	75.0
	Level of client satisfaction — average evaluation on 10-point scale (<i>according to results of a study ordered by SRS</i>)	X**	8.1	X	8.1
Involvement of non-governmental sector in increasing voluntary tax compliance is promoted.	Assessment of cooperation with the SRS by sectoral associations, average evaluation according to the 10-point scale (<i>according to results of a study performed by SRS</i>)	7.85	7.85	7.9	8.0

* Integrated monitoring of provision of public services and the needs of end users. Assessment of state institutions and e-index of state institutions. Study ordered by the Ministry of Environmental Protection and Regional Development (MoEPRD). The SRS e-index in 2018 is 51.7, 8th place in the rating of institutions.

** The study on the satisfaction of SRS clients is carried out once every two years.

Strategic initiatives

1. Targeted communication for promoting the voluntary tax compliance.

- Ensure open, forthcoming, helpful and cooperation-oriented attitude in communication with taxpayers.
- Create optimal solution for publication of SRS decisions.

- Improve regulatory framework to achieve greater motivation for voluntary settlement of tax disputes.
- Implement communication on cases of successful business achieved by honestly paying taxes and fulfilling tax obligations.
- Implement proactive communication by developing real-life situations in the field of taxes to prevent making mistakes.
- Develop recommendations for customs clients for faster fulfilment of customs obligations.
- Educate future taxpayers.

2. Language of communication compliant with client's needs and method of communication (channel).

- Develop a communication matrix, i.e., channels, language and content suitable for each group of clients.
- Direct service recipients to more convenient and effective channels, primarily EDS.

3. Development of a digital ecosystem.

- Introduce SRS chatbot, ensuring provision of consultations 24/7.
- Implement Tax Information Services Modernisation Project to provide high quality SRS services to the public, improving the processes of the SRS principal activity and provided e-services.
- Continue electronic customs environment development projects, promoting and increasing competitiveness of European Union entrepreneurs in the common market.
- Develop and implement data publication and availability concept, inter alia, for ensuring publication of open data.

4. Expanded cooperation for ensuring added value to partners.

- Facilitate horizontal cooperation in public administration between SRS and institutions regulating the industry, inter alia, by taking active part in the development of laws and regulations and initiating proposals to reduce the administrative burden and ability to evade paying tax.
- Strengthen cooperation with associations that represent industries with the highest shadow economy risks.
- Promote exchange of best practices for promoting voluntary tax compliance, especially in digitalisation of tax administrations, with Member States of the European Union.



STRATEGIC OBJECTIVE 3

Smart monitoring for promotion of a fair business environment and prosperity — we help change behaviour in fulfilling obligations by sharing information and knowledge

Results of studies performed by SRS suggest that the most important tax gaps are decreasing each year and a significant decrease in the shadow economy has been noted in recent years. Concurrently, several findings show that it is necessary to seek new methods and implement smart tactics to reduce the level of non-registered tax obligations, i.e., shadow economy:

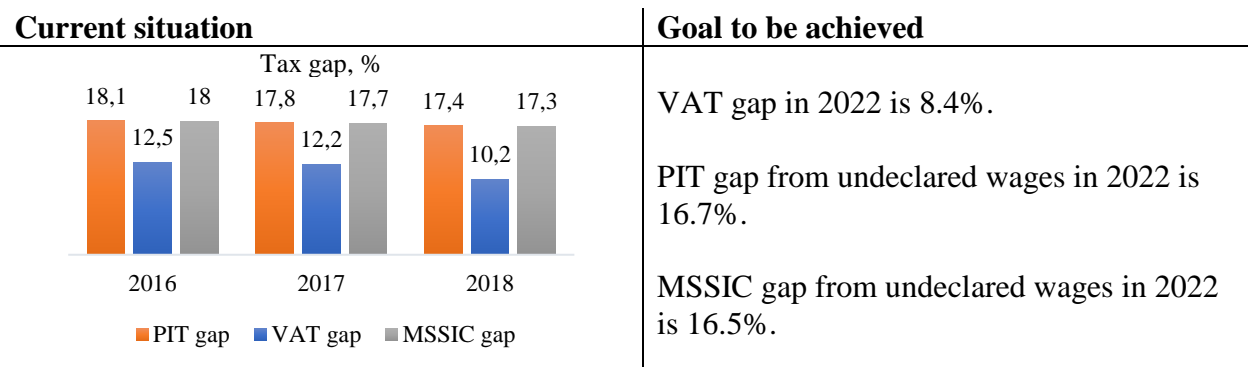
- Level of non-declaration of taxes and, hence, the share of ‘envelope’ wages in Latvia is still high; according to SRS calculations, approximately 19% of the total income from employment was paid as ‘envelope’ wages in 2018,
- Rate of decrease in level of non-declared tax obligations is slowing down,
- Level of illegal consumption of excise goods, especially cigarettes, and smuggling of narcotics is still comparatively high,
- Dynamics of macroeconomic development rates and tax gaps point at possible connection between economic development and non-declaration of taxes, which suggests high risks of non-payment of taxes during economic crises.

To reduce the level of non-registered tax obligations and enhance protection of society, SRS monitoring measure priorities for the next three years will be minimisation of ‘envelope’ wages, Value Added Tax (VAT) fraud, illegal circulation of excise goods, smuggling of narcotics, and circulation of cash of illegal origin.

Primarily, we support and promote voluntary compliance, implementing targeted monitoring measures based on risk analysis in the event of discrepancies, stipulating that these actions will have a positive impact on tax and customs compliance in the future. Our approach will be determined by taxpayer behaviour, attitudes, discipline in fulfilling tax and customs obligations, and willingness to cooperate.

Based on the principle ‘Consult First’, we will show initiative to achieve mutual understanding with taxpayers. If we detect mistakes or violations, we will first give taxpayers the opportunity to eliminate discrepancies voluntarily. If the taxpayer does not take advantage of this opportunity, only then will sanctions follow. To ensure that the application of ‘Consult First’ by SRS employees is clear and unambiguous, we will revise appropriate laws and regulations and, if necessary, propose amendments to laws in cooperation with the Ministry of Finance.

Our goal is to apply supervisory and control measures for improving voluntary fulfilment of tax and customs obligations.



Performance indicators

Performance results	Indicator	Numeric values of performance indicators			
		2019	2020	2021	2022
As the result of application of the principle 'Consult First' and the performance of preventive measures, voluntary elimination of discrepancies and violations increases	Share of taxpayers who adjust declarations themselves prior to commencement of an audit out of the total number of taxpayers for whom an audit is planned, %	12.0	18.0	X	X
	Proportion of taxpayers who update their own declarations during tax incentive measures out of all taxpayers for whom tax incentive measures have been initiated.*	X	X	32.0	35.0
	Discrepancies eliminated by taxpayers themselves in VAT declarations as the result of preventive measures, calculating the amount of VAT to be paid additionally or reducing the amount of overpaid VAT, MEUR**	16.0	15.0	15.0	15.0
Share of the public who do not fulfil obligations stipulated by laws and regulations has decreased	Share of shadow economy, %***	19.9	18.9	X	X
	Excise duty gap on petroleum products, %	5.3 ¹	5.2	5.1	5.1
	VAT gap, %	7.1 ¹	10.3	8.7	8.4
	MSSIC gap from undeclared wages, %	17.2 ¹	16.8 ¹	17.3	16.5
	PIT gap from undeclared wages, %	17.3 ¹	16.9 ¹	17.5	16.7
	Assessment of illegal circulation of tobacco products, %****	15.0	14.6	14.1	13.7

¹ Actual value of result indicator

	Share of non-declared employment income in the business sector, % *****	17.3 ²	17.1 ²	17.7	16.9
	Effectiveness of customs physical control, %	25.0	25.0	25.0	25.0
Restriction of organised crime	Stopped activity of organised criminal groups, number	16	16	16	16
	Share of criminal proceedings transferred for criminal prosecution in priority fields out of the total number of such proceedings, % *****	87	88	89	90
Money-laundering and terrorism-financing risks reduced	Share of subjects of the Law "On the Prevention of Money Laundering and Terrorism and Proliferation Financing" (AML/CFTP), whose activity complies with requirements of the AML/CFTP Law and the Law "On International Sanctions and National Sanctions of the Republic of Latvia", %	75	77	79	81

* Tax promotion activities are preventive activities within the framework of the "Consult first" principle and activities aimed at obtaining information necessary for tax administration (information, requests for information, negotiations, consulting, visits, surveys, monitoring, thematic inspections) in order to achieve voluntary tax compliance.

** Actual value of the indicator in 2018 is MEUR 15.9. Increase in the indicator value is not predicted, taking into account decrease in the reduction rate of the VAT gap.

*** As indicated by Austrian professor F. Schneider's results.

**** Assessment as per the Work Group of Law Enforcement Authorities, created within the framework of the National Criminal Investigation Model (NCIM). Calculations for 2019 are for the 1st half of the year.

***** According to results of assessment and forecasts performed by SRS.

***** Priorities include restriction of money laundering and circulation of cash, evasion of tax payments, fraud, payment of 'envelope' wages, illegal circulation of excise goods, and circulation of narcotics.

Strategic initiatives

1. Using analytic knowledge and available material and technical resources, developed and implemented measures that promote the voluntary payment of taxes.

- Achieve a balance between resources consumed and benefits obtained in terms of revenue in tax administration measures, including meaningful application of the 'Consult First' principle.
- Optimise the types of control measures and inspections, reducing their number and improving targeted use.
- Timely identification of taxpayers who experience problems with paying taxes.

² Actual value of result indicator

- Implement measures for restricting dishonest business practices.

2. Targeted action and cooperation in detection and prevention of irregularities and criminal offences in the field of State revenue and customs matters.

- Develop and promote/implement a concept for implementation of synchronised border inspections at border-crossings in cooperation with the State Border Guard.
- Implement customs control measures based on risk analysis to restrict smuggling and importation of hazardous goods.
- Strengthen cooperation and develop a common understanding with the Prosecutor's Office to speed up pre-trial investigation, maintaining high quality.
- Implement integration of SRS law enforcement units in the National Criminal Investigation Model.
- Enhance intelligence, analytical, investigative, support and technical capacity to detect and prevent crime.

3. International cooperation and introduction of EU-level requirements.

- Activate harmonised inspections and joint audits by Member States.
- Take active and purposeful part in international projects and initiatives.
- Implement permanent cooperation with European Union organisations *Europol* and *Eurojust* to detect and prevent crime.
- Implement the Public Safety and Security Information System that ensures measures for the safe movement of goods across the border of the European Union.
- Improve technological solutions necessary for customs control that facilitate customs risk management in the chain of supply.

4. Active, risk-based action for the prevention of anti-money laundering and terrorism financing in the fields of SRS influence.



STRATEGIC OBJECTIVE 4

Professional, loyal, honest, responsible and cooperative employees

Development tendencies of both international and Latvian national State administration purposefully aspire towards a value-based organizational culture, focused on people and work for the benefit of society.

SRS values – **professionalism, cooperation, loyalty, honesty and responsibility** – support the SRS vision and the achievement of strategic objectives, form the environment and culture of the organisation, determine the perception and thinking of employees, and reflect in the actions and attitude of each employee.

SRS values form a stable foundation upon which each employee can begin his/her work towards the institution's vision and mission, understanding his/her role and contribution to the achievement of the institution's goals. As generations, thinking, and looking at processes change, the values of the institution become a beacon for many employees when making decisions and formulating attitudes.

Our goal is to achieve that our values are not only written into the strategy, but are also implemented in the daily lives of all SRS employees, promoting the reputation of public administration, including SRS, and the trust of citizens.

To achieve high results, crucial factors include creating working conditions and an environment in which people feel comfortable and are motivated to work and improve. Appropriate technical equipment optimised for the needs of work processes and supporting employees' efforts promotes higher performance and productivity.

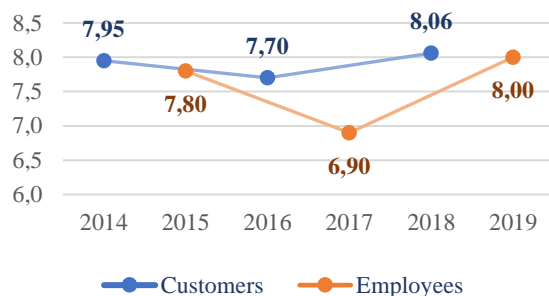
SRS has created a team of value ambassadors, who help all SRS employees understand our values and, based on specific actions, promote their expression in various situations related to job duties and out-of-work activities.

SRS values:

- **promote the development of employees** — we value our knowledge, competences and ability to constantly evolve,
- **improve the motivation and involvement of employees**, which is the guarantee for successful achievement of SRS goals and performance results,
- **help employees to make better decisions** — we are a role model for society because we take responsibility for the work we do and have done,
- **improve internal communication** — communication and interaction between employees and managers improve the working environment and are the basis for increased productivity,
- **attract and retain talent** — we publish our values to improve recruitment of employees who support our values,
- **help clients understand who and what is SRS** — we are always honest and open to ourselves, others, and the work we do.

Current situation

Satisfaction level of clients and employees, points

**Goal to be achieved**

Client satisfaction in 2022 is at least 8 points (average evaluation on a 10-point scale)

Personnel satisfaction in 2022 is at least 8.1 points (average evaluation on a 10-point scale)

Performance indicators

Performance results	Indicator	Numeric values of performance indicators			
		2019	2020	2021	2022
'Cooperation' — cooperation among SRS employees improved.	Average evaluation by SRS employees on a 10-point scale for 'Relations with my co-workers are good and promote productivity of work' (according to results of an employee satisfaction study ordered by SRS)	8.26	X*	8.30	X*
'Loyalty' — satisfaction of SRS employees with SRS as a place of work increased	Satisfaction of SRS employees with SRS as a work, average evaluation on a 10-point scale (according to results of an employee satisfaction study ordered by SRS)	6.98	X*	7.0	X*
'Responsibility' — involvement of SRS employees increased	Index of involvement of SRS employees, % (according to results of a study ordered by the State Chancellery)**	60.5	60.7	61.0	61.5
'Professionalism' — professional growth of SRS employees has a positive impact on SRS development	SRS employees admit that training and development activities have helped improve performance, average evaluation on a 10-point scale (according to results of a study ordered by SRS)	7.54	X	7.6	X
'Honesty' — actions of SRS employees promote the prestige of SRS	Share of taxpayers and customs clients who assess SRS employee behaviour during tax collection, tax control and customs control measures as honest, % average weighted (according to results of a study ordered by SRS)***	X	91.0	X	91.5

* SRS employee satisfaction study is carried out every two years.

** Involvement is a set of positive attitude and actions, which promotes high performance according to the mission and goals of the organisation. In 2018, the involvement index of SRS employees was 60% (52% — involved, 8% — actively involved).

*** SRS client satisfaction study is carried out every two years. In 2018, the value of the indicator was 91.4%.

Strategic initiatives**1. Implementation of values in the daily life of SRS employees.**

- Implement activities of SRS value messengers and SRS structural units.
- Promote effective internal communication regarding implementation of SRS values.
- Expand involvement of all level managers and their responsibility in the processes of value implementation and change management.

2. Working environment supporting employee needs for achieving high performance results.

- Develop and implement SRS workspace and infrastructure concept.
- Promote change in location of workplaces by increasing their share in the structural units of SRS in the regions.
- Develop more flexible working conditions, supporting remote work.
- Promote self-development and growth of managers and employees.

Enclosed: Calculation of effective strategic indicators on 10 pages.

Director General of the State Revenue Service

I.Jaunzeme