

VALSTS IENĒMUMU DIENESTS

# STATE REVENUE SERVICE PUBLIC REPORT 2021



Valsts ienĒmumu  
dienests

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## Dear taxpayers, cooperation partners and colleagues,

The State Revenue Service (hereinafter referred to as the 'SRS') continued fulfilling its 'one-man army' functions in 2021. On the one hand, an intensive and tireless work with taxpayers was conducted and actions were taken to increase the share of honest tax payments in Latvia; likewise, we continued



to combat the informal economy, paying special attention to the issue of the so-called 'envelope salaries'. In turn, on the other hand, the SRS, in compliance with the Saeima and the Cabinet decisions, continued to pay millions of euros for downtime allowances, salary subsidies and grants for compensating the decrease of the flow of current assets, thus helping entrepreneurs to overcome the COVID-19 crisis.

Was it an easy year for the SRS? No at all! It could not have been an easy one, as it was a complicated time full of uncertainties for the national economy of Latvia in general. We are gratified for the fact that the State budget has received the planned funds in spite of various challenges. This gratification is due to the fact that there are still businesses in Latvia which persistent work enables to ensure funds so much required for healthcare, education, national defence and many other needs. However, this does not mean that those 'doers', who think that it is possible to run business by paying taxes partially or not paying them at all and expecting that all state expenses will be covered by honest taxpayers, can feel safe.

Last year was rich in various innovations. Conditions related to the withdrawal of the United Kingdom from the European Union, i.e. 'Brexit', entered into force fully. In turn, the e-commerce principle was introduced in the middle of the year, determining that all goods sent from third countries are subject to customs clearance. The single account principle was launched last year,

determining that taxes shall be paid to a single account, rather than to many different accounts. Certainly, intensive work in the field of combating smuggling did not cease either — a large number of illegal cigarettes, large amounts of cash, as well as various counterfeit goods, which not only distort competition, but are also dangerous for the health of inhabitants, were seized.

The SRS priorities for 2022 and the years to come remain unchanged — minimising 'envelope' salaries, value added tax fraud, illegal movement of excisable goods, drug smuggling and the circulation of cash of illegal origin. In addition, a new challenge came up, which was primarily caused by the Russian invasion into Ukraine — it directly depends on our work that sanctioned goods reach neither Russia, nor Belarus friendly thereto. It is not possible to choose neighbouring countries, but we can decide to work in such a way that allows us to live in a safe and wealthy country. Therefore, we should join our efforts to ensure that all of the aforementioned factors are considered as extraordinary, a relic from the past, rather than an everyday occurrence. Together we have done a lot to achieve this goal and I am convinced that by continuing to work together, we will succeed in making Latvia an even better country!

  
**Ieva Jaunzeme**  
 SRS Director General

## 1. Background Information

### 1.1. Legal Status and Structure of the SRS

The SRS is a direct public administration body reporting to the Minister for Finance, which is in charge of accounting of tax payments and taxpayers, collection of state taxes,

duties and other mandatory payments established by the State in the territory of the Republic of Latvia, as well as collects taxes, duties and other mandatory payments to the budget of the European Union ('EU'), enforces customs policy and deals with customs affairs.

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

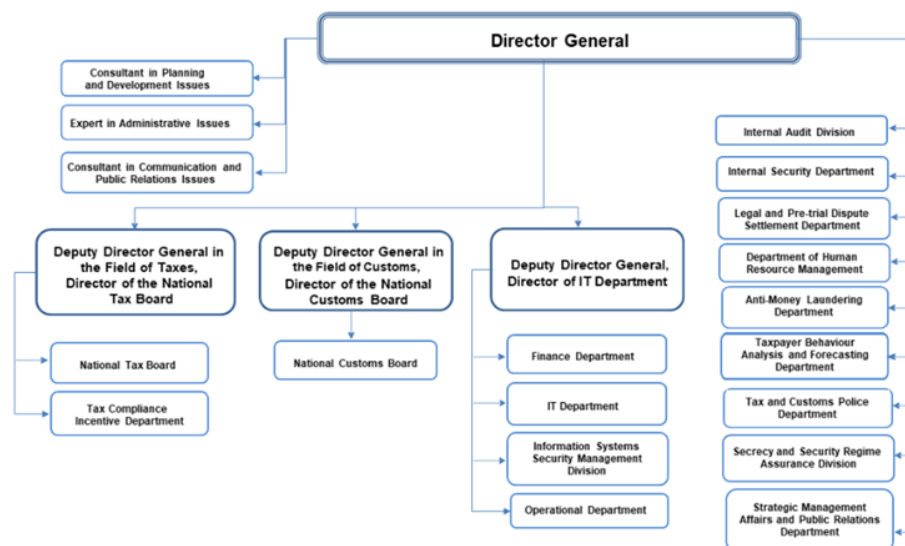


Fig. 1. Organisational structure of the SRS in 2021

**Structural changes in the SRS in 2021** — as of 27 October 2021, the Advisor for Planning and Compliance Matters is no longer directly subordinate to the SRS Director General.

### 1.2. Priorities for 2021

In order to improve voluntary compliance with tax obligations, reduce the informal economy and strengthen civil protection, the SRS set the following **priorities in 2021**:

- developing the analytical function, segmenting taxpayers for the further development of support services;
- minimising 'envelope salaries';
- restricting the value added tax (hereinafter referred to as 'VAT') fraud;
- preventing money laundering and restricting the circulation of cash of illegal origin;
- reducing the illegal movement of excisable goods, the smuggling of narcotic substances and the illegal circulation of cash of illegal origin.

### 1.3. SRS Development Strategy for 2020-2022

**SRS moto:** Together we make Latvia even better!

**SRS mission:** The SRS is a reliable ally in tax and customs matters for honest businesses and public welfare.

**SRS vision:** Latvia is a country where everyone voluntarily fulfils their tax and customs obligations.

**SRS values:** professionalism, cooperation, loyalty, integrity, responsibility.

## Strategic objectives and initiatives



### *1. Services compliant with customer needs — we know our customer*

- Integration of analytics and development of data management.
- Segmentation of taxpayers according to their tax compliance discipline during the entire life cycle of tax administration (360-degree approach).
- Implementation of the tax compliance strategy, providing appropriate services to each segment.
- Convenient and easy-to-use services developed based on user experience and service design approach.



### *2. Trust-oriented communication and cooperation — we trust our customer*

- Targeted communication for promoting voluntary compliance with tax obligations.
- Communication language and method of communication (channel) appropriate to the customer's needs.
- Development of a digital ecosystem.
- Expanded cooperation for ensuring added value to partners.



### *3. Smart monitoring to promote an honest business environment and prosperity — we help to change compliance behaviour by sharing information and knowledge*

- Using analytical knowledge and available material and technical resources, measures have been developed and implemented to promote the voluntary payment of taxes.
- Targeted actions and cooperation in detecting and preventing violations and criminal offences in the field of State revenues and customs matters.
- International cooperation and the introduction of EU-level requirements.
- Active actions based on risk analysis in the field of anti-money laundering and combating financing of terrorism in the SRS area of influence.



### *4. Professional, loyal, honest, responsible and cooperation-oriented employees*

- Implementation of values in the everyday life of SRS employees.
- Work environment that supports employees' needs for achieving high performance results.

## 2. Performance Results for Attainment of Goals Set in the SRS Development Strategy and Implementation of Initiatives

### 2.1. Services Compliant with Customer Needs — We Know Our Customer

The enhancement of the SRS analytical capacity initiated in 2020 and further development of the centralised data management was continued in 2021, gradually introducing the *SAP HANA* technological platform:

- the development of all analytical solutions planned in 2021 was completed, inter alia, the development of the segmentation/rating (taxpayers' total scoring) prototype, the development of the identified list component and the development of the customs process risking solution was ensured;
- data management principles, the distribution of obligations of data owners and data operators were developed and approved;
- the training of *SAP HANA* administrators and personnel training in the field of *HRF (HANA Rules Framework)* was organised.

To ensure the faster enhancement of analytics, it was decided to apply for the EU Recovery and Resilience Facility ('RRF') funding, which was supported.

In accordance with the SRS Development Strategy for 2020-2022 (hereinafter referred to as the 'Strategy') and the Latvia's RRF Plan, a wide range of reform activities 6.1.1.r "Analytics enhancement and data management development in the field of tax administration and customs" is being carried out starting from 2022, aiming at improving the management of the tax compliance risk and other activities related to combating the informal economy, quality and efficiency, to be fully completed in 2024. Thus, in 2022, the defining of selection conditions of *SAP HANA* introduction rating and segmentation (taxpayers' total scoring) and the development of functions will be continued for reflecting segmentation results, including for reflecting and visualising the taxpayer rating in the Electronic Declaration System.

**In the Electronic Declaration System ('EDS'):**

- improvements have been introduced, ensuring the reflection of information from the *E-veselība (E-health)* system, allowing employers to check sick-leave certificates;
- an interactive interface has been introduced for the retrieval of taxpayer data accumulated by the SRS in the form of reports (a possibility of creating a personalised list of reports), simplifying work for every customer who uses data available in EDS;

- the visual appearance of EDS has been changed, retaining all existing functions, yet visually making the information system more transparent and easier for users to be oriented and work;

- structured documents have been introduced for receiving and re-registering special permits (licences) for business activities with excisable goods to significantly simplify the receipt of the respective e-service;

- the accounting of the supplied volumes of alcoholic beverages subject to excise duty exemption and of denatured alcohol has been introduced in the EDS, thus the 'Permission for the purchase of alcoholic beverages subject to excise duty exemption' (permission series A) and the 'Permission for the purchase of denatured alcohol' (permission series DI) are issued electronically and suppliers do not have to specify manually the supplied volume in a hard copy statement;

- the section 'Payments and State of Instalments' has been improved to enable taxpayers to follow their state of tax instalments easier;

- a solution has been introduced for SRS consultants, ensuring a possibility of seeing errors in a document prepared by a taxpayer and warnings to be able to provide more efficient consultations to taxpayers;

- the EDS Application Programming Interface 'Taxi Service' has been introduced for sending information about performed commercial passenger carriage to the SRS online;

- a structured document 'Application for receiving the outsourced accountant's licence' has been introduced.

**The administrative and financial burden in the field of circulation of excisable goods has been reduced:**

- for taxpayers and the SRS, as the provision, which prescribed to pay the excise duty within 180 days following the day of receipt of excise duty stamps, was excluded from the Law on Excise Duties; moreover, the said Law was supplemented with a possibility of destroying excise duty stamps, without removing them from the packaging of excisable goods, and receiving back the paid excise duty in such case;

▪ for merchants engaged in the circulation of excisable goods as conditions were facilitated with regard to the security necessary for the transportation of excisable goods in Latvia and by sea.

**The high level of service has been ensured for customs customers** in organising customs clearance of goods — in 97% of cases, customs declarations, which the system transferred to the ‘green path’, are drawn up within the time limits determined in the SRS customs standard, i.e., up to 4 hours for import and export and up to 1.5 hours for transit.

Table 1. **Fulfilment of performance indicators set out in Objective No 1 “Services compliant with customer needs — we know our customer” of the Strategy in 2021**

<i>Performance results</i>	<i>Indicator</i>	<i>Compliance</i>
The majority of taxpayers pay taxes voluntarily — in full and in a timely manner	Level of voluntary compliance with tax obligations (payment of taxes), %	<b>61.0</b>
	Level of voluntary fulfilment of tax obligations (declaration), %	<b>64.0</b>
	Share of merchants generating tax revenues out of the total number of merchants, %	<b>70.0</b>
	Share of the total debt against the common budget revenues, %	<b>9.9<sup>1</sup></b>
Increased productivity and efficiency of collection	Collected revenues per SRS employee, thousand EUR	<b>2 990<sup>1</sup></b>
	Costs of one collected euro, EUR	<b>0.0118</b>

## 2.2. *Trust-oriented Communication and Cooperation — We Trust Our Customer*

In view of the crisis caused by COVID-19, which persisted also in 2021, and its impact on business activity, any communication in 2021 should be assessed within the context of people’s concern about health, organisation of social life and their ability

to keep their job / personal source of income. On the other hand, issues related to the maintenance of activity were crucial for business owners, especially in the sectors directly and indirectly affected by the crisis. In its communication concerning successful and fair business activity, the SRS emphasised the direct correlation between fair payment of taxes and the possibility of receiving support from the State in the form of grants to compensate the drop of the flow of current assets, downtime benefits and salary subsidies for partially employed persons.

Thus, in 2021, the SRS continued to implement extensive and diverse communication activities, including providing up-to-date information on the SRS website in the ‘COVID-19’ section, providing information for national and regional mass media, for business organisations; providing informative and explanatory visual materials, carrying out active communication on social platforms, organising online seminars for various target audiences, sending personalised letters in the EDS for relevant segments of the population and business owners, etc., to inform and explain the state benefits available to various groups of residents and businesses in the field of taxes in relation to the spread of COVID-19 and the national emergency situation.

For the purpose of ensuring the public right to information about the most significant violations of tax and customs laws and regulations by legal persons and promoting fair competition and voluntary tax (duty) compliance, **on 9 September 2021 the SRS started to publish information about the decisions adopted by the SRS and crucial for the public:**

- decisions on the findings of tax reviews (audits);
- decisions on the results of data conformity checks;
- decisions, by which the amount of taxes was adjusted in accordance with Section 23, Paragraphs 5<sup>2</sup> and 5<sup>3</sup> of the Law on Taxes and Fees;
- decisions, by which a debt for tax payments was detected;
- decisions, by which the refund of the overpaid VAT was denied.

To fulfil Council Directive (EU) 2018/822 of 25 May 2018

aimed at ensuring transparency and fairness in the field of taxation:

- the *DAC6* solution has been introduced — information exchange about reportable cross-border tax schemes implemented by EU taxpayers together with other

<sup>1</sup> For the purpose of calculating the indicator performance, the revenue sum of the general budget administered by the SRS does not include the budgetary revenue paid to the single tax account, which have not yet been transferred for particular types of payments.



persons in EU Member States or third countries, and, using this solution, the first information exchange with EU Member States took place;

- In 2021, 172 messages were received in total about reportable cross-border schemes from taxpayers from both Latvia and other EU Member States.

To ensure the **implementation of EU Council Directives** aimed at determining VAT application simplification conditions in the field of e-commerce and creating fair competition conditions between businesses, which carry out economic activities in the EU and third-territory or third-country businesses:

- the *OSS (one stop shop)* system has been introduced, expanding the *MOSS (mini one stop shop)* system in accordance with the European Commission regulations;
- the scope of the special VAT arrangement has been expanded, applying the special VAT arrangement not only to electronic services, but also to the distance selling of goods;
- the new functionalities of the Electronic Customs Data Processing System (hereinafter referred to as the 'ECDPS') have been developed:

- to process a large volume of data in connection with postal items, a new ECDPS Temporary Storage (PU2) functionality was introduced in the production environment and VAS "Latvijas Pasts" started using it on 16 June 2021;
- on 1 July 2021, a new ECDPS functionality 'Import Customs Declarations for Postal Consignments with Especially Reduced Data Set' was introduced in the production environment, inter alia, ensuring its integration with the related systems of the SRS, the European Commission and other authorities, as well as postal operators;
- additions and usability improvements of the ECDPS functionality were developed within the framework of the European Regional Development Fund ('ERDF') project 'Export and E-commerce Processes in E-customs' commenced in 2021 and were introduced in the production environment on 1 July 2021, ensuring the additional integration of processes related to e-commerce.

Having examined and analysed the information provided within the framework of the **Latvia's Receipt Lottery** in conjunction with information already available to the SRS in 2021:

- for 1 363 taxpayers — issuers of cash register receipts, it has been established that the total transaction value declared in the VAT declaration was less than the total amount of receipt transactions submitted to the lottery, including those with a total transaction value

of EUR 0; of which 658 taxpayers were subject to preventive tax administration measures, as a result of which:

- 63 warnings regarding exclusion from the SRS VAT Taxable Persons Register were sent and six taxpayers were excluded from the SRS VAT Taxable Persons Register;
- taxpayers submitted or adjusted their VAT declarations; thus, the amount of VAT to be paid into the budget was increased by EUR 1.53 million;
- two thematic inspections, within the framework of which a fine of EUR 1.3 thousand was imposed for detected violations, were conducted; during the inspection, one taxpayer declared additional payments to be made into the budget in the amount of EUR 0.1 thousand.

Within the framework of the **project 'Modernisation of Tax Information Services'**, 13 processes were integrated in the Payment Administration Information System ('MAIS') in 2021; moreover, processes related to the accounting of the single tax account and the accounting of state revenues were improved.

Improvement works will be continued for some of the introduced processes in 2022 to supplement them with new functionalities.

In December 2021, a security check was carried out for the SRS MAIS virtualisation solution, inter alia, performing break-in tests, analysing logical controls and configuration of the system.

**Within the framework of the 'E-customs (Stage 2)' and the ERDF project 'Export and E-commerce Process in E-customs'**, the following have been introduced in the production environment:

- new systems in the field of safety and security — the first release of the Import Control System 2 ('ICS2') to ensure risk analysis for postal consignments from third countries;
- the classifier data replication functionality of the Integrated Tariff Management System ('ITMS') for internal and external systems of the SRS, using the SRS information system integrator.

The following have been developed:

- Stages 1, 2 and 3 of the Automated Export System ('AES');
- Stage 1 of the Transit Control System 2 ('TCS2');
- Stage 1 of the Automated Import System;
- the ECDPS functionality 'Transfer of ICS2 Data to the Data Warehouse System';



- the functionality of supplements of Temporary Storage Declarations and Electronic Transport Documents (in accordance with amendments to the Union Customs Code Implementing Regulation and the Delegated Regulation);
- capacity improvements of the temporary storage system;
- the exchange of ECDPS AES and TCS2 data, using the SRS information system integrator;
- supplements of ITMS changes in connection with the introduction of tax calculation for postal consignments, as well as the receipt of the postal goods classifier from the ECDPS;
- the user interface design of the public section of the ITMS website in line with the SRS Design Guidelines and for use on mobile devices, Stage 1.

To enhance the cooperation of law enforcement authorities in preventing and combating economic crimes, as a result of the project **‘Promoting Cooperation of Law Enforcement Institutions in Preventing and Combating Economic Crimes in Latvia’** co-funded by the European Economic Area (EEA) Financial Mechanism Programme ‘International Police Cooperation and Combating Crime’, the SRS, in cooperation with the State Police, initiated the development of a unified criminal intelligence data exchange system. The unified data exchange system will include a digital analytics tool and the Digital Support System of the SRS National Criminal Intelligence Model, which will be connected to the State Police database. Information analysts and special task experts will be prepared for work with the said system.

According to the project schedule, the development of the software base system functionality of the digital support system of the SRS National Criminal Intelligence Model was commenced in 2021 in compliance with the respective specifications and architecture description, as well as the developed data exchange documentation and data exchange system.

Planned procurements were performed within the framework of the project: encryption devices, firewall and optical commutators were purchased, the optical network was improved and optical sockets were installed.

Within the framework of the project **‘Preventing and Combating Economic Crimes at the ‘Terehova’ Border-Crossing Point’** of the EEA Financial Mechanism programme ‘International Police Cooperation and Combating Crime’, improvements were introduced

in the infrastructure of the Terehova Border-Crossing Point, training of employees was carried out and the field of cynology was enhanced at the SRS. Within the framework of the project:

- the coordination, monitoring and management of implementation project activities was ensured;
- procurement procedures planned in 2021 were implemented and contracts were concluded (on the design, author’s supervision, construction supervision, construction, purchase of equipment);
- the training classroom at the Cynology Centre at Maskavas iela 30, Rēzekne, was equipped with surround sound devices;
- works related to the reconstruction of the warehouse and garage building were commenced.

**Table 2. Fulfilment of performance indicators set put in Objective No 2 ‘Trust-oriented communication and cooperation — we trust our customer’ of the Strategy in 2021**

<i>Performance results</i>	<i>Indicator</i>	<i>Compliance</i>
The level of public trust to the SRS has increased, promoting voluntary compliance with tax obligations (51.2% in 2018)	Level of public trust to the SRS, % (according to the results of the study ordered by the State Chancellery)	51
	Share of SRS decisions contested in court, %	23
Effectiveness of the SRS e-management has increased	E-index, points (max. 100)	57.9
	Services provided by the SRS to residents assessed as excellent or good, % (according to the results of the study ordered by the State Chancellery)	66.9
High level of customer satisfaction with quality of service provided by SRS employees	Level of customer satisfaction — average evaluation according to the 10-point scale (according to the results of the study ordered by the SRS)	— 2
	Assessment of cooperation with the SRS by sectoral associations, average evaluation according to the 10-point scale (according to the results of the study performed by the SRS)	7.83
Involvement of the non-governmental sector in increasing voluntary compliance with tax obligations has been encouraged.		

<sup>2</sup> The study on the satisfaction of SRS customers is carried out once in two years.

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### 2.3. *Smart Monitoring to Promote an Honest Business Environment and Prosperity — We Help to Change Compliance Behaviour by Sharing Information and Knowledge*

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To continue implementing the culture of voluntary compliance with tax obligations, tax administration and **informal economy restriction** measures have been implemented.

In 2021, work was continued with **natural persons, for whom inconsistencies had been identified between their account turnover** (the account turnover exceeding EUR 15 000) and **the declared income**. Within the framework of preventive tax administration measures:

- 9 267 letters were sent with an invitation to review the declared income, as a result of which 6 608 persons submitted explanations or adjustments to their annual income declarations;
- 556 persons additionally declared taxable income of EUR 3 630.29 thousand;
- 2 182 persons additionally declared non-taxable income of EUR 100 252.60 thousand;
- 560 persons additionally declared taxes of EUR 388.68 thousand.

As a result of incentive measures, 72 individuals declared additional payments to the budget of EUR 1 489.7 thousand; likewise, 122 reports, declarations or their adjustments were submitted.

In turn, as a result of the **tax compliance incentive and control measures implemented**,

EUR 86.6 million in tax losses were prevented, including the following:

- EUR 80.3 million — additionally calculated taxes (tax audits, data compliance checks, adjustment of tax amount, tax calculations as requested by the person conducting criminal proceedings);
- EUR 3.1 million — losses eliminated by excluding taxpayers for whom no additional VAT assessments were performed from the SRS VAT Taxable Persons Register;
- EUR 3.2 million — additional taxes declared by taxpayers themselves (during tax compliance incentive measures, within the framework of thematic inspections, data conformity checks, risk analysis and prior to tax audits).

The amount of prevented tax losses in 2021 increased by EUR 20.2 million or 30%, compared to 2020.

To ensure the appropriate application of customs payments, in 2021, by implementing **customs control measures** based on risk analysis results at the time of customs clearance of goods and post-clearance, possible losses of EUR 4.76 million were prevented. Within the framework of post-clearance checks, the risk analysis and inspection capacity was improved: the average number of discrepancies revealed during one post-clearance check in customs payments increased by 187%, and EUR 8.44 thousand per decision were assessed during post-clearance checks (on average EUR 2.94 thousand per decision in 2020).

By simplifying and accelerating the settlement of customs procedures, fair business activities were supported and facilitated. In 2021, the share of declarations automatically released under the import procedure ‘release of goods for free circulation’ reached 27.5%.

In 2021, one of the main tasks for the SRS was to promote the payment of taxes, allowing taxpayers to fulfil their obligations voluntarily, thus promoting positive cooperation according to the goal of the ‘**Consult First**’ principle.

In the field of tax administration, the ‘Consult First’ principle was applied:

- by sending 36 650 reminders to individuals/economic operators regarding the approaching deadline for the submission of annual income declarations (82.5% of economic operators out of the number of sent reminders submitted their annual income declarations);
- by sending 49 538 reminders to taxpayers regarding the approaching deadline for the submission of annual reports (84.4% of taxpayers out of the number of sent reminders submitted their annual reports);
- by sending 100 373 reminders to taxpayers regarding the approaching deadline for the submission of corporate income tax (‘CIT’) declarations (84.5% of taxpayers out of the number of sent reminders submitted their CIT declarations);
- by sending 37 690 reminders to taxpayers regarding the approaching deadline for the submission of the ‘Statement on amounts paid to individuals’ (97.9% of taxpayers out of the number of sent reminders submitted their statements on amounts paid to individuals);

- by sending 6 421 informative reminders to excise duty payers on 1 March 2021 and 1 January 2022 due to changes in excise duty rates regarding the performance of stock-taking and calculation of excise duty (97.2% of excise duty payers out of the number of sent reminders submitted their calculations of excise duty);

- by informing 2 657 taxpayers regarding errors made deliberately or unwittingly in ‘Statements on amounts paid to individuals’ (the share of erroneous statements in 2021 amounted to 1.1% of the total number of submitted statements);

- by inviting individuals/recipients of royalties to register themselves as self-employed persons and to make mandatory State social insurance contributions (‘MSSIC’), 1329 individuals in total, (54 persons registered their economic activities; 1136 persons submitted their self-employed person’s statements, declaring MSSIC of EUR 260.27 thousand);

- by informing taxpayers about risky transactions, which they had specified in their VAT declarations (533 cases);

- by informing taxpayers, who, in the opinion of the SRS, were risky and regarding whom information was submitted to their counterparties (345 cases), as a result of which VAT declarations were modified in 207 cases with the fiscal effect of EUR 658.49 thousand.

Prior to performing control measures, taxpayers are invited to fulfil their tax payment obligations voluntarily and to submit declarations on capital increase for the reporting period and annual income declarations. Taxpayers were addressed, selecting the most convenient and quickest method of communication: by phone — 3239, by sending short messages in the Taxpayer Notification System — 692, by mail — 429. Referring to the SRS invitations, 1053 taxpayers additionally declared their personal income tax (‘PIT’) of EUR 5 931.78 thousand.

Within the framework of tax control measures, the ‘Consult First’ principle was applied in 177 cases, inter alia:

- in 104 cases, providing consultations on the application of laws and regulations;
- in 47 cases, inviting to correct declarations on non-audited periods;

- in 26 cases, during negotiations with company officials on salary increase.

Having been informed about the detected violations or discrepancies in accordance with the ‘Consult First’ principle, taxpayers themselves additionally declared taxes of EUR 1.8 million in 2021.

In the field of customs, the ‘Consult First’ principle was applied:

- under the supervision of customs authorisations (87.4% of cases) by means of control measures;

- during data compliance checks (‘DCC’) — 204 taxpayers voluntarily eliminated detected discrepancies (as a result of DCCs, a total of EUR 1,266.58 thousand were additionally calculated and a total of EUR 844.91 thousand were voluntarily adjusted);

- by using the Taxpayer Notification System, 220 reminders were sent to taxpayers regarding the approaching payment deadline for deferred payments;

- due to the fact that the requirements of the VAT E-commerce Directive entered into force on 1 July 2021, public informing and customer support measures were implemented (seminars for customers and SRS employees; interviews; presentations; information on the SRS website; training of the SRS virtual assistant; regular meetings with express post operators and VAS “Latvijas Pasts”).

In the field of anti-money laundering, the ‘Consult First’ principle was applied in 232 cases after the findings of on-site checks.

Taxpayers have the right to initiate the signing of a settlement agreement<sup>3</sup> over additionally assessed payments payable into the budget as a result of the tax review (audit) and data conformity check or over unfounded increasing of the refunding from the budget. By signing a settlement agreement, the legal dispute is terminated in these cases. By entering into a settlement agreement, the fine and late payment charge calculated as the result of a tax review (audit) is cancelled either fully or partially; the late payment charge calculated as a result of data compliance checks is cancelled partially, whereas the deferred payments are payable to the budget monthly in proportion during a year from the settlement agreement date.

<sup>3</sup> Section 41 of the Law on Taxes and Fees to terminate a legal dispute regarding additional payments due to the budget, which have been calculated as a result of a tax audit.



In 2021, the SRS **entered into 56 settlement agreements with taxpayers.**

In 2021, **measures for reducing ‘envelope salaries’ were implemented:**

- a plan of measures for reducing ‘envelope salaries’ for 2021-2022 was developed and approved on 22 June 2021, including measures for the improvement of internal and external regulations, the enhancement of the field of analytics, inter alia, priority measures for reducing ‘envelope salaries’ in 2021-2022 and other measures;

- 68 taxpayers additionally declared MSSIC and PIT for a total of EUR 221.0 thousand within the framework of tax compliance incentive measures;

- thematic inspections of 97 employers were performed and in 22 cases, fines totalling EUR 18.4 thousand were applied for violations detected within the framework thereof (during the thematic inspections of employers, as a result of the preventive work, 44 taxpayers eliminated detected violations themselves and additionally declared MSSIC and PIT payable to the budget of EUR 189.3 thousand);

- 10 tax audits were performed, within the framework of which MSSIC and fines of EUR 2 495.4 thousand, as well as PIT and fines of EUR 1 247.6 thousand, were additionally calculated;

- 15 criminal proceedings were initiated;

- 19 criminal proceedings were transferred for the commencement of criminal prosecution.

In 2021, **criminal offences were revealed and eliminated** in the field of state revenues and customs affairs:

- 700 criminal proceedings were commenced, which is by 41.1% less than in 2020;

- 303 criminal proceedings were transferred for criminal prosecution, exceeding the respective figure of 2020 by 8.6%;

- the amount of losses incurred to the State, as established in criminal proceedings transferred for criminal prosecution, was EUR 15.5 million, which was 25.8% more than in 2020;

- the harm prevented within the framework of criminal proceedings transferred for criminal prosecution, in cases where such harm could be calculated, amounted to EUR 1.7 million, which was an increase by 36.8% compared to 2020;

- the property of EUR 0.8 million was acknowledged as criminally acquired and transferred to the state budget (by 25.5% less than in 2020);

- the operation of 16 organised criminal groups (‘OCG’) was detected and stopped: eight in the field of state revenues, four in the field of excisable goods and four in the field of narcotic substances, which in total was by two OCGs less than in 2020;

- 28 criminal proceedings were commenced on the non-declaration or false declaration of cash and/or money laundering; four criminal proceedings were transferred for the commencement of criminal prosecution; EUR 2 584 555.33 were seized;

- 42 criminal proceedings were initiated on money laundering, of which 26 criminal proceedings on the non-declaration or false declaration of cash and money laundering; 17 criminal proceedings were transferred for the commencement of criminal prosecution.

To improve the revealing and prevention of criminal offences in the field of state revenues and customs affairs and increase their effectiveness, the Action and Development Strategy of the SRS Tax and Customs Police Department for 2021-2024 and an action plan for its implementation were developed and approved on 10 August 2021. It facilitates the attainment of strategic goals determined by the SRS Strategy and the SRS vision — Latvia is a country where everyone voluntarily fulfils their tax and customs obligations.

The main areas of activity of the SRS Tax and Customs Police Department are — restriction of evasion of tax payments, restriction of non-declaration or false declaration of cash, prevention of money laundering and restriction of smuggling in the field of circulation of excisable goods and narcotic substances.

The main directions of development of the Tax and Customs Police Department set by the Action and Development Strategy of the SRS Tax and Customs Police Department for 2021-2024 are:

- enhancing the analytical and intelligence capacity — introduction of a criminal intelligence model;

- transferring resources for revealing criminal offences that significantly increase state budget revenues;

- increasing the efficiency of operation — consolidation of resources strengthening synergy between finance and customs organisational units.

### Major criminal offences detected:

▪ Activity of a group that committed money laundering for several millions of euro was stopped. During searches, a total of EUR 100 000 in cash, as well as drugs were found and seized. Criminal proceedings were initiated for money laundering.



Photo: SRS

▪ A marijuana farm was discovered in Latgale. The suspect was also simultaneously engaged in the illegal transportation and storage of cigarettes. During the searches, cash of EUR 16 780, dried and non-dried marijuana, seeds and 46 young plants were found and seized.



Photo: SRS

▪ Activity of an organised group of 'cash mules', who transported cash across the border of the Republic of Latvia in the total amount of EUR 1.4 million, was stopped. During searches, cash of EUR 9 920.33 was found and seized.



Photo: SRS

▪ A cargo of wood concrete blocks was found in a hangar located in Riga District, inside which 3 541 800 pcs of NZ GOLD cigarettes with excise duty stamps of the Republic of Belarus were hidden (moored). Criminal proceedings were initiated regarding the illegal movement of goods subject to customs clearance to the customs territory of the Republic of Latvia on a large scale.



Photo: SRS

### The most important criminal proceedings transferred to the prosecutor's office for the commencement of criminal prosecution in 2021:

- against a person regarding money laundering of more than EUR 3 million;
- against seven persons regarding evasion of tax payments and legalisation of these criminally acquired funds, as a result of which the state budget incurred losses of more than EUR 3 million (for the purpose of settling property issues, the immovable property owned by the involved person was seized, as well as a luxury class car purchased for criminally acquired funds; the funds of almost EUR 60 000 were recognised as criminally acquired and transferred to the state budget);
- against two persons regarding evasion of tax payments of EUR 1.13 million; as a result of the criminal proceedings, the property of suspects in the amount of EUR 118 340, capital shares of various companies, several immovable and movable properties were seized;
- against a person ('cash mule') regarding money laundering of more than EUR 3 million; for the purposes of settling property issues, movable and immovable properties were seized with the total value of EUR 308 969.00;
- against a person regarding the smuggling of approximately one kilogramme of hashish.

### In combating the smuggling of cigarettes:

As a result of activities of the SRS organisational units, the following excisable goods and narcotic substances were seized in 2021:

- cigarettes — 73 486 313 pcs;
- alcoholic beverages — 5 667 litres;
- fuel — 2 987 litres;
- narcotic substances confirmed during expert examination – 20 904.7 g.

Implementing customs control measures based on risk analysis restricted the release into free circulation of contraband and goods that are dangerous and unsafe for the public. The number of bans on the import of goods dangerous to consumers decreased by 27% compared to the previous year.



In 2021, the SRS implemented the following activities to facilitate the struggle against **money laundering** and financing of terrorism:

- 663 on-site inspections, based on risk analysis, and 139 remote inspections were performed;
- in total, sanctions of EUR 200 550 were applied in accordance with 128 taken decisions, inter alia, 61 decisions were taken on applying sanctions of EUR 9 850 for infringement of the Law on International Sanctions and National Sanctions of the Republic of Latvia;
- as a result of 708 inspections, it was established that the activities of subjects of the Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing ('AML/CFTP') in 88.3% of cases complied with the requirements of the AML/CFTP Law and the Law on International Sanctions and National Sanctions of the Republic of Latvia, which is by 9.3 % more than planned in 2021 (79%);
- 13 materials were prepared as a result of the inspections for sending to law enforcement authorities.

As of 1 October 2021, reports on suspicious transactions and threshold declarations must be submitted in the new Financial Intelligence Data Receipt and Analysis System (*goAML*) of the Financial Intelligence Unit ('FIU'), which is a significant relief for the subjects of the AML/CFTP Law — before that, they were obliged to submit reports on suspicious transactions in the field of taxes to both the FIU and the SRS.

In accordance with the provisions of the AML/CFTP Action Plan for 2020-2022, the SRS implemented several crucial measures in 2021:

- guidelines were updated for the subjects of the AML/CFTP Law on identified risks and recommended risk-reducing measures;
- education activities were carried out for subjects of the AML/CFTP Law (online seminars, e-training, prepared presentations) and consultations were provided;
- monitoring measures were implemented with regard to the subjects of the AML/CFTP Law (802 inspections were completed);
- action plans of competent authorities were updated in accordance with the National ML/FTP Risk Assessment;
- the Financial Intelligence Data Receipt and Analysis System (*goAML*) was introduced;
- licensing of outsourced accountants was introduced;
- at least five money-laundering cases correspondent to the risk profile of Latvia were transferred to the prosecutor's office for the commencement of criminal prosecution within two years;
- a customs information system was introduced to ensure the registration of accompanied and non-accompanied cash declarations.

In 2021, the Tax and Customs Police Department initiated 44 criminal proceedings regarding the non-declaration or false declaration of cash and/or money laundering; 20 criminal proceedings were transferred for criminal prosecution. A total of EUR 3 046 210.97 in (transported) cash was seized. Funds of EUR 843 043 were recognised as criminally acquired and transferred to the state budget.

**Table 3. Fulfilment of performance indicators set out in Objective No 3 'Smart monitoring for promoting a fair business environment and welfare – we help to change the behaviour in fulfilling obligations by sharing information and knowledge' of the Strategy in 2021**

Performance results	Indicator	Compliance
As a result of applying the 'Consult First' principle and performing preventive measures, voluntary elimination of discrepancies and violations increases	Proportion of taxpayers who update their own declarations during tax payment incentive measures, out of all taxpayers, for whom tax payment incentive measures were started, %	32.6
	Discrepancies eliminated by taxpayers themselves in the VAT declaration as a result of preventive measures performed, calculating additional VAT payable to the budget or reducing the amount of overpaid VAT, million EUR	24.16



Continuation of Table 3.

<i>Performance results</i>	<i>Indicator</i>	<i>Compliance</i>
The share of the public that does not fulfil obligations stipulated by laws and regulations has decreased	Excise duty gap for oil products, % (for 2020)	5.6
	VAT gap, %	–
	MSSIC gap from undeclared remuneration, % (for 2020)	16.8
	PIT gap from undeclared remuneration, % (for 2020)	16.9
	Assessment of illegal circulation of tobacco products <sup>4</sup> , %	15.8
	Share of non-declared employment income in the business sector, % (for 2020)	17.1
	Effectiveness of customs physical control, %	24
Restriction of organised crime has been achieved	Activity of organised criminal groups has been discontinued number	16
	Proportion of criminal proceedings transferred for criminal prosecution in priority fields out of total proceedings transferred for criminal prosecution, %	82.5
Risks of money laundering and financing of terrorism have been reduced	Proportion of those subject to the AML/CFTP Law whose activity complies with requirements for enforcing the AML/CFTP Law and the Law on International Sanctions and National Sanctions of the Republic of Latvia, %	88.3

## 2.4. Professional, Loyal, Honest, Responsible and Cooperation-oriented Employees

### Self-development and growth of managers and employees is promoted:

- access is ensured to lectures and conference records;
- the SRS library offers more than 1 400 various books and nine games for team building;
- a book exchange point is available;
- various self-development tools are offered and introduced (e-booklet ‘Growth Support Programme’, career planner, individual development plan, form ‘Studying as Awareness’ that promotes an informed approach to studies and sharing

of obtained knowledge, ‘KāpNes’ — publications on effective management and working environment);

- e-courses and training materials on 211 various topics are offered in the E-training System (‘EMS’);
- 11 792 employees participated in 411 various training activities, inter alia, 1995 (16%) employees participated in training activities organised by the SRS in-house lecturers.

223 new employee mentoring programmes were implemented to support new employees; the course ‘Introductory Course on Work Organisation at the SRS’ was mastered by 225 new employees; likewise, a ‘Roadmap for New Employees’ was developed and introduced.

A basic training programme was developed for officials of the National Customs Board, in-house lecturers of the topics included in the said programme were identified, planning activities were implemented to ensure internal training for new customs officials on 29 customs topics in 2022.

Supporting more flexible working conditions and **possibilities of remote work**, the SRS Internal Rules of Conduct were supplemented with provisions on remote work; likewise, the Labour Protection Instruction for Work with Office Equipment was updated (inter alia, for remote performance of work with computer) and a work place self-assessment questionnaire was developed.

According to the set of measures for reducing the risks of COVID-19 infection and spreading, the remote performance of work was ensured during the emergency situation to employees with the relevant nature of work. During the emergency situation, the on-site fulfilment of official duties was carried out only by those SRS employees, who ensured the continuity of the institution’s operation and the nature of whose official duties did not allow fulfilling them remotely.

### Maintenance and development of the premises was implemented:

- the implementation of the SRS Work Environment and Premises Development Concept (2020-2025) is continued. The current intensity of using the premises is assessed and re-planning works are carried out to combine the desired and the actually impossible in a new working environment, inter alia, to create premises for various functions (individual work, cooperation, recreation) and include the most significant elements of universal design, namely, to enable employees to work efficiently at any work place and in any working environment;

<sup>4</sup> Indicators of illegal circulation of tobacco products according to the calculations performed by the Nielsen’s ‘Empty Cigarettes Pack Study’ for the 3<sup>rd</sup> quarter of 2021.

- A solution was created in the SRS Sharing System for booking free work places;
- new working premises were ensured in Jelgava and Rēzekne;
- in accordance with the guidelines included in the Informative Report of the State Chancellery ‘Organisation of Flexible Work in Public Administration’, a new work organisation model was introduced at Atmodas iela 19, Jelgava, including both the creation of modern work places suitable for various forms of work, activities, co-working and the modern, inclusive, efficient and flexible organisation of work. In the process of implementing this model, a cooperation agreement was developed, considered and signed with the Ministry of Finance on the creation of two work places for the ministry employees;
- a large-scale optimisation of work places was commenced in the SRS administrative building at Talejas iela 1, Riga, affecting all SRS organisational units and SRS management block (except for the Tax and Customs Police Department, Internal Security Department, Secrecy and Safety Regime Assurance Division). Optimisation was commenced, stipulating the reduction of the lease area at Talejas iela 1, Riga, by more than 4000 m<sup>2</sup>.

#### **The car fleet was optimised:**

- by continuing the improvement of processes in the field of road transport administration, a new SRS Road Transport and Transport Services Development Concept was developed for 2022-2025;
- during the reporting period, the process of equipping the entire SRS car fleet with the transport monitoring and control system (‘TKUS’) was completed, providing an opportunity to move away from hard copy forms (waybills and route sheets) to accounting in information systems, inter alia, to ensure the accounting of other data as well (on repairs, insurance, maintenance, etc.) in the *Horizon* / Road Transport Module;
- in improving cost effectiveness for the purchases of buses for delivering customs officials to and from customs control points (‘CCP’), a transportation service was introduced, ensuring the transportation of officials of the National Customs Board to two CCPs: ‘Terehova’ and ‘Pāternieki’. The project was assessed as successful and its introduction was commenced at CCPs ‘Grebņeva’ and ‘Silene’.

#### **Access to information about internal services was ensured:**

- the SRS internal virtual assistant ANNA was supplemented and improved, its errors were eliminated (the scenario tree was supplemented with questions and answers about the Electronic Assessment Form Information System (‘NEVIS’) and remuneration issues, analysing the conversations between SRS employees and the virtual assistant, goals were supplemented with questions asked by SRS employees, ANNA’s competences were additionally supplemented with topics on economic issues — ordering of goods and services, immovable property management issues and repairs, movement of inventory and destruction of non-declared data carriers);
- a regulatory framework portfolio was developed for every organisational unit, including laws and regulations, as well as other documents binding for SRS employees, to facilitate work for the heads of organisational units, whose duties include the familiarisation of employees, especially new ones, with all internal regulatory documents; likewise, employees have an opportunity to become acquainted with all documents in a summarised form;
- an Archive File Topography System was developed to improve the administration of documents accumulated by the SRS and optimise the use of premises for placing physical documents, as well as to reduce the inquiry processing time required to find a document.

To facilitate the implementation of SRS values, inter alia, to create a positive image of the SRS in society, as well as to implement efficient internal communication, the **movement of SRS value messengers** actively continues their operations and organises projects crucial for SRS employees, for example, a charity project at the ‘Jugla’ Branch of the State Social Care Centre ‘Riga’ (at the recreation facility for visually impaired persons), panel discussions on matters topical for the SRS, a video project ‘Person to Person’, ‘Ice-braking’ online discussions, etc.

Table 4. **Fulfilment of performance indicators set out in Objective No 4 ‘Professional, loyal, honest, responsible and cooperation-oriented employees’ of the Strategy in 2021**

<i>Performance results</i>	<i>Indicator</i>	<i>Compliance</i>
‘Cooperation’ — cooperation between SRS employees has improved.	The average evaluation by SRS employees according to the 10-point scale for the statement ‘Relations with my co-workers are good and promote productivity of work’ (according to the results of the employee satisfaction study ordered by the SRS)	8.59

Continuation of Table 4.

Performance results	Indicator	Compliance
'Loyalty' — the satisfaction of SRS employees with the SRS as a place of work has increased	Satisfaction of SRS employees with the SRS as a place of work, average evaluation according to the 10-point scale <i>(according to the results of the employee satisfaction study ordered by the SRS)</i>	7.23
'Responsibility' — the involvement of SRS employees has increased	Index of involvement of SRS employees, % <i>(according to results of the study commissioned by the State Chancellery)</i>	_5
'Professionalism' — the professional growth of SRS employees has a positive impact on the SRS development	SRS employees admit that the performed training and development activities have helped them to improve their performance, average evaluation according to the 10-point scale <i>(according to the results of the study ordered by the SRS)</i>	7.65
'Integrity' — the actions of SRS employees promote the prestige of the SRS	Proportion of taxpayers and customs customers who assess the behaviour of SRS employees in tax collection, tax control and customs control measures as fair, % average weighted <i>(according to results of a study ordered by the SRS)</i>	_6

<sup>5</sup> The fulfilment of the performance indicator is currently unavailable.

<sup>6</sup> The study on the satisfaction of SRS customers is carried out once in two years.

### 3. Statistics on Services Provided by the SRS

In 2021, SRS customers were ensured with access to 231 public services; moreover, requesting and/or receipt of 228 or 98.7% of services was ensured in electronic form. Whereas the following three services could be applied for and received in person: 'Cash Declaration', 'Notification of Transportation of Excisable Goods' and 'Performance of Analyses for the Determination of a Combined Nomenclature Code and TARIC Code'.

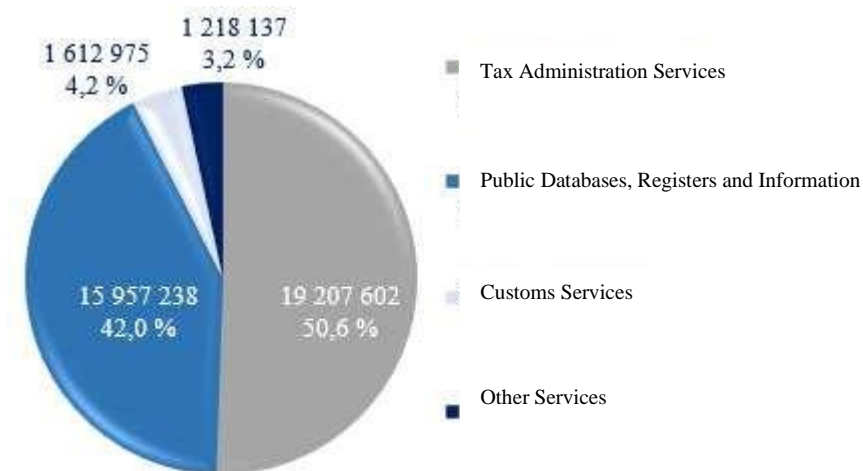


Fig. 2. Number of services provided by the SRS by groups of services, 2021

In total, the SRS provided 37 995 952 services to customers in 2021, which is by 3.4 % less than in the previous year.

Out of the total range of services provided by the SRS in 2021, SRS customers used tax administration services the most, accounting for 50.6% of the total range of services provided by the SRS, namely, 19 207 602 tax administration services; which is by 12% less than in the previous year. The following services were provided most frequently:

- statement on amounts paid to individuals — 10 451 502;



- refunding of overpaid taxes, duties and other statutory payments — 1 094 748;

- payment status of budget payments — 1 069 935;
- employer's report — 1 062 673.

Taxpayers used information from databases and registers made publicly available by the SRS in 15 957 238 cases, which is by 6.1% more than in the previous year. The following was the most commonly used information from the database made publicly available by the SRS:

- the register of tax debtors — 8 732 359;
- taxpayers and the register of taxpayers' organisational units — 2 301 087;
- published parts of public officials' declarations — 1 785 975;
- SRS VAT Taxable Persons Register — 1 356 096;
- Register of Special Permits (Licences) and Certificates for Activities with Excisable Goods — 1 000 565.

1 612 975 services were provided in the field of customs, the most popular being the following:

- drawing-up of import customs declarations for postal consignments (including H7) — 350 832;
- customs procedure 'transit' — 328 770;
- customs procedure 'release for free circulation' — 269 686;
- notification of transportation of excisable goods — 260 589;
- customs procedure 'export' — 213 463;
- temporary storage declaration for placing goods on temporary storage — 108 056.

Other services were provided in 1 218 137 cases, including:

- consultations on the application of laws and regulations — 777 192;
- services in the field of excise duty — 170 502;
- e-services on the public administration portal [www.latvija.lv](http://www.latvija.lv) — 125 957;
- services to public officials — 73 520;
- replies to inquiries on issues within the competence of the SRS — 70 210;
- SRS information on the rights of an individual in their particular legal situation — 559;

- paid services — 197.

Table 5. **Paid services provided by the SRS, 2021**

<i>Paid service<sup>7</sup></i>	<i>Number</i>
Sales of strict accountancy seals	106
Opinion on the compliance of marked (labelled) petroleum products with legal requirements of the Republic of Latvia	42
Customs clearance of goods outside the customs office location or beyond working hours	35
Performance of analyses to determine the Combined Nomenclature code and <i>TARIC</i> code	14

In turn, the ten most frequently received services make up 79% of all services provided.

Table 6. **'Top 10 services' with the largest number of service recipients, 2021**

	<i>Service</i>	<i>Number</i>
1.	Statement on amounts paid to individuals	10 451 502
2.	Register of tax debtors	8 732 359
3.	Taxpayers and the register of taxpayers' organisational units	2 301 087
4.	The published part of public official's declaration	1 785 975
5.	SRS VAT Taxable Persons Register	1 356 096
6.	Refunding of overpaid taxes, duties and other statutory payments	1 094 748
7.	Payment status of budget payments	1 069 935
8.	Employer's report	1 062 673
9.	Annual income declaration	1 048 393
10.	Special permits (licences) and certificates for activities with excise goods	1 000 565

<sup>7</sup> In accordance with Cabinet Regulation No 345 of 19 June 2018 "SRS Paid Services Price List".

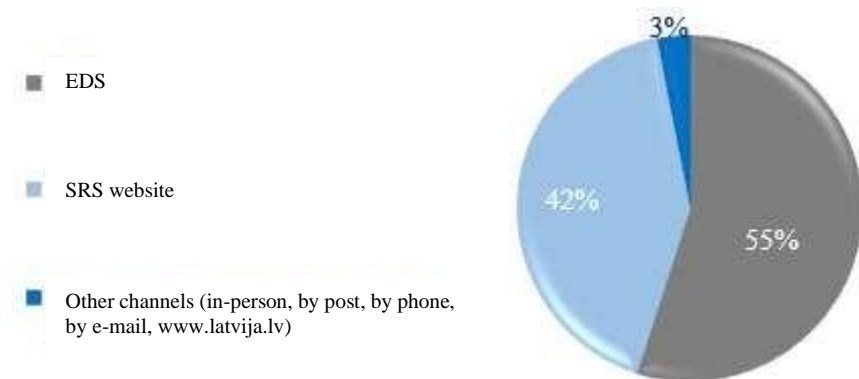


Fig. 3. Most important channels for requesting and receiving SRS services

In 2021, the number of consultations provided via the hotline increased by 13%, which was affected by the increase in the number of calls in connection with limited possibilities of receiving on-site services due to the COVID-19 pandemic, increase in the number of consultants and the introduction of the specialisation of tax consultants, dividing questions into those asked by individuals and those by legal entities.

## 4. Financial Resources and Their Use

### 4.1. State Budget Funding and Its Use

In accordance with the Law on the State Budget for 2021 and orders of the Minister for Finance of 2021, in 2021, the SRS used the funds allocated in the budget in compliance with the approved basic budget programmes, sub-programmes, measures to cover revenue collection expenditures (revenues), and planned expenditure estimates and financing plans.

Table 7. Total funding allocated to the SRS in 2021 and its use, EUR

No	Financial indicator	2020 (actual implement ation)	2021	
			approved by the Law and orders of the Minister for Finance	actual implem entation
1.	<b>Funds for covering expenses (total)</b>	<b>221 307 487</b>	<b>867 201 541</b>	<b>818 971 333</b>
1.1.	subsidy	219 644 712	859 750 561	811 928 262
1.2.	paid services and other own revenue	195 991	283 439	285 346
1.3.	foreign financial aid	918 983	6 879 932	6 470 116
1.4.	transfers	547 801	287 609	287 609
2.	<b>Expenditures (total)</b>	<b>188 159 480</b>	<b>869 286 532</b>	<b>819 725 812</b>
2.1.	maintenance expenses (total)	175 908 080	852 660 513	805 665 844
2.1.1.	current expenses	112 219 352	118 873 776	118 656 144
2.1.2.	subsidies, grants and social benefits	63 266 759	728 847 664	682 216 447
2.1.3.	current payments to the European Union budget and international cooperation	265 802	4 931 707	4 785 888
2.1.4.	transfers of maintenance expenses	156 167	7 366	7 365
2.2.	expenses for capital investments	12 251 400	16 626 019	14 059 968

#### 4.2. SRS-administered Total Budget Revenues in 2021



Fig. 4. Revenue of the general budget administered by the SRS in 2017-2021, including the budgetary revenue paid to the single tax account in 2021, which have not yet been transferred for particular types of payments, million EUR

In 2021, the total budget revenues administered by the SRS, including the budgetary revenue paid to the single tax account, which have not yet been transferred for particular types of payments, amounted to EUR 10 923.19 million, which was EUR 839.48 million or 8.3% more than planned, including the amount of tax revenues collected, which was EUR 10 059.55 million or 4.1% more than planned, whereas the amount of non-tax revenues collected was EUR 517.61 million or 24.2% more than planned.

In 2021, tax and non-tax revenues administered by the SRS and collected to the general budget were EUR 714.17 million or 10.7% more than in 2020.

EUR 811.9 thousand of the state budget funds allocated to the SRS in 2021 were used, or 94.4% of the planned amount.

Table 8. Use of funding allocated for implementing budget programmes and sub-programmes in 2021

Programme/sub-programme	Funding used in 2021	
	thousand, EUR	% of the planned
33.00.00 programme "Ensuring State Revenue and Customs Policy"	125 600.6	99.7
62.09.00 sub-programme "Implementation of Projects and Activities of the European Regional Development Fund (ERDF)"	1 388.8	94.1
67.07.00 sub-programme "European Community Incentive Projects"	9.5	91.3
71.07.00 sub-programme "Projects Funded by the EEA and Norway Grants"	355.9	78.2
73.06.00 sub-programme "Financial Resources Allocated Within the Framework of Agreements between the European Commission (with Participating Member States) and Tobacco Manufacturers"	1 239.9	56.9
73.07.00 sub-programme "Projects Financed by the European Commission for Improvement of the Internal Market Within the Tax and Customs System"	4 787.6	94.3
73.08.00 sub-programme "Projects Implemented by the State Revenue Service in the Field of Protection of Financial Interests"	1 764.2	72.4
99.00.00 sub-programme "Contingency Funds"	684 579.2	93.6

#### 4.3. Funding Allocated for the Implementation of Priority Activities

The Cabinet, having examined the applications for priority measures, i.e., measures that comply with the Latvian National Development Plan for 2014-2020 and other development planning documents, approved funding to the SRS for implementing the following priority activities in 2021.

Table 9. Funding allocated for priority measures in 2021

Name of the priority measure	Funding, EUR
1. Strengthening the capacity of Ministry of Finance institutions, including to combat the informal economy, to attain the strategic goals of the SRS (including for remuneration of customs officers, inspectors and financial police officers)	2 272 661
2. Continuation of the SRS administrative structure reform, inter alia the capacity building of APA and transfer prices	1 500 000
3. Elimination of money-laundering and financing of terrorism risks	533 163
4. Modernisation of tax information services (including creating the MAIS and ensuring functionality)	2 827 846
5. Implementing the Receipt Lottery to reduce the informal economy in sectors most at risk	635 012
6. Implementing the action plan for preventing money laundering and financing of terrorism for the period until 31 December 2019	1 870 078
7. Introducing information systems ensuring foreign trade in accordance with the Union Customs Code (Regulation No 952/2013)	2 908 756
8. Introducing VAT Directive amendments, facilitating the management and security of online purchases	1 847 647
9. Financing the process of selling property due to the State	276 922

## 5. Personnel

At the end of 2021, the SRS had 3 863 positions, while the number of employees actually employed was 3 476. Within the year, the number of officials' positions was reduced by 26.

3943	3941	3959	3889	3863
2017	2018	2019	2020	2021

5. Fig. Dynamics of the number of SRS positions in 2017-2021

Out of the total number of SRS employees:

- 89% are civil servants and 11% are employees;
- 75% are women and 25% are men;
- 96% have higher education.

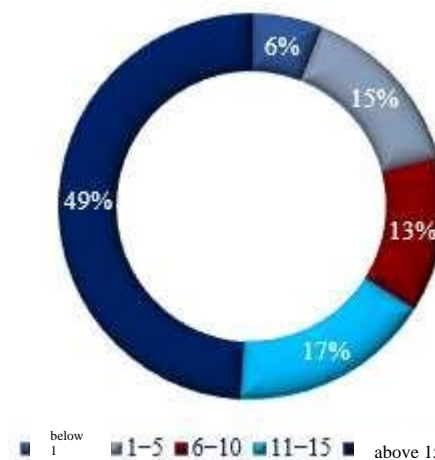


Fig. 6. Division of SRS employees by employment period in 2021

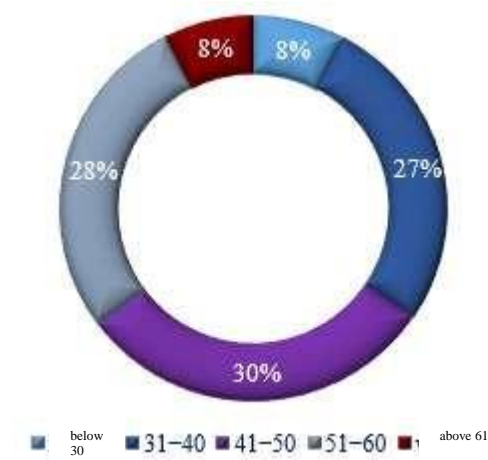


Fig. 7. Division of SRS employees by age in 2021



In 2021, the SRS entered into civil service and employment relationships with 260 officials and employees and terminated thereof with 368 officials and employees. Thus, the staff turnover rate is 17.7%, the staff renewal rate is 7.3% and the staff departure rate is 10.3% (the calculation of the rates does not include data on the reduction of the number of officials and employees).

The average monthly salary of SRS employees in 2021 was EUR 1546, which is by 6.4% more than in 2020 and by 8.6% more than in 2019.

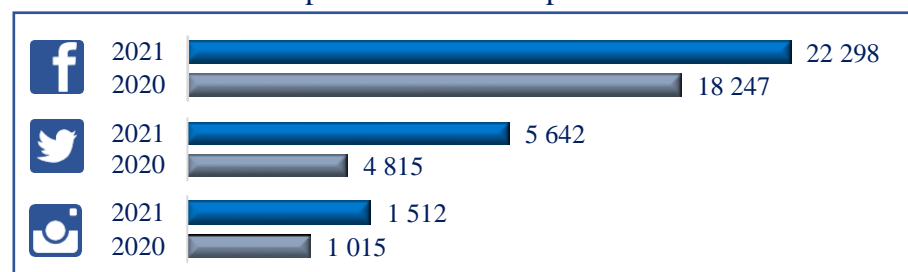
SRS Badges of Honours, SRS Certificates of Appreciation and Certificates of Gratitude, as well as cash prizes, were awarded to 285 SRS employees for professional, honest and dedicated work and significant personal contribution to the development of the SRS and attainment of goals in 2021. One SRS official was awarded with the Certificate of Appreciation by the Prime Minister and eight SRS officials were granted awards of the Ministry of Finance.

Disciplinary action was taken against 67 SRS employees in 2021; of these, 27 employees were reprimanded, the monthly salary of 27 employees was temporarily reduced and 13 employees were dismissed.

In 2021, SRS employees participated in 411 various training events (courses, seminars, webinars), of which 16% were provided by SRS in-house lecturers. The main subjects of training: communication and contact — 21%, legal and administrative issues — 15%, combating crime — 23%, customs issues — 22%. 211 training courses are available for professional development in the SRS e-training environment.

## 6. Communication with the Public

The SRS has always emphasised that clear and honest communication that is understandable to the taxpayer plays a very important role, as it affects trust to the institution, which in turn has a positive impact on the voluntary compliance with tax and customs obligations. To promote public awareness of the importance of fulfilling tax and customs obligations in improving state welfare and the reputation of the SRS as an open and efficient, modern and cooperative public administration institution, active and purposeful communication with the public has been implemented.



8. Fig. Number of SRS followers in social media

### On the SRS website:

- in the section 'Tax Changes 2021', current information on changes in the field of taxes has been published, as well as video recordings of SRS seminars, seminar presentations and answers to questions asked during the seminars;
- the section 'Single Tax Account' provides information on both the transition to the single account and the FIFO ('first in – first out') and accrual principle in tax administration;
- up-to-date information on all downtime support measures provided by the SRS, as well as other relief in the area of taxes, excise duty goods and customs in connection with the prohibition or restrictions of economic activities during the COVID-19 crisis, was published in the 'COVID-19' section, as well as a list of self-employed persons and employers who have received downtime and subsidy support, as well as grants for ensuring the flow of current assets.

<b>5 748 604</b>	Average time spent by one user on the website	On average <b>16 929</b>	Maximum number of views — on 1 March
Unique views per year	~ 2 min	Views per day	<b>342 013</b>

9. Fig. SRS website traffic statistics, 2021

**Cooperation with mass media:** 280 press releases were sent out on various issues within the competence of the SRS, including the organisation and results of the Receipt Lottery, deadlines for tax and customs obligations, the single tax account, progress in combating the informal economy, detected cases of ‘envelope salaries’, criminal offences in the area of customs and in the area of state revenues, e-environment (EDS) services, cooperation with business associations and sectoral associations, participation of SRS management and experts in various seminars and conferences, changes in the area of taxes and customs in 2021, as well as support provided by the SRS in the area of taxes to residents and businesses negatively affected by the COVID-19 crisis.

#### **Educating and informing customers:**

- 21 online seminars were organised, inter alia, in cooperation with the State Social Insurance Agency and other related institutions and organisations, on current tax administration and customs issues, an opportunity to receive the SRS aid in the area of taxes for inhabitants and businesses negatively affected by the COVID-19 crisis; tax changes for various groups of taxpayers (recipients of royalties, patent payers, self-employed persons, VAT payers, etc.); completion of public officials’ declarations; completion and submission of annual income declarations; topical events for the members of the enhanced cooperation programme; topical events in the area of e-commerce; declaration of postal consignments for items from third countries and calculation and application of taxes to such items; the new Accounting Law; as well as individual online seminars on current events in the area of taxes for particular sectors, e.g., providers of catering services, beauty care specialists, recipients of royalties, etc.;

- regular interviews and comments were given by the SRS management and experts in “Rīta Panorāma” on LTV 1, “900 sekundes” on TV 3, the Rīga TV 24 programme “Uz Līnijas”, “Latvijas Labums”, as well as other TV and radio programmes;

- more than 900 written replies and comments were provided to questions asked by various printed mass media (newspapers, magazines, Internet portals) about matters within the competence of the SRS;

- the e-training course ‘Requirements on the Fulfilment of the AML/CFTP Law and the Law on International Sanctions and National Sanctions of the Republic of Latvia’ was updated (the final test was passed by 801 persons (the e-training course ‘Requirements on the Fulfilment of the AML/CFTP Law and the Law on International Sanctions and National Sanctions of the Republic of Latvia’ was completed by 673 persons));

- a video seminar ‘Licencing of Outsourced Accountants’ was published on the SRS website regarding requirements on the professional qualification of outsourced accountants and other conditions to be observed for receiving a licence;

- information was sent via the EDS to all subjects of the AML/CFTP Law (11 483) about the sectoral money laundering risk evaluations (2018-2019) for 13 sectors supervised by the SRS;

- 345 methodological and informative materials on tax issues and 64 methodological and informative materials on customs issues; a booklet on tax payment arrangements available to recipients of royalties; 130 visual materials and infographics posted on the SRS website and social networks were prepared and updated.

#### **Educating and informing schoolchildren and young people:**

- participation in eight guest lectures within the framework of the school programme ‘Ready for Life’, inter alia, in five guest lectures ‘I know and understand the benefits of paying taxes’ and three guest lectures ‘What is there in my career backpack?’ (the development of the remote version of the guest lecture ‘I know and understand the benefits of paying taxes’ was commenced);

- participation of customs dog handlers in an event organised within the framework of the project ‘Stabilisation of mental health for reducing the consequences of COVID-19 pandemic for youngsters of Cibla Municipality’;

- an educational excursion was organised to the Port of Liepāja Customs Control Point for future specialists in logistics from Jelgava, Saldus and Jēkabpils branches of the BUTS training centre;

- participation of SRS representatives, including customs dog handlers, in children and youth camps organised by the magazine “iFinances”: “Mazais direktors” (*Young Director*) and “Jaunais izmeklētājs” (*Young Investigator*).

**Participation in the socially informative campaign ‘#FraudOFF’** — in cooperation with the Ministry of Finance to promote ‘zero’ tolerance to fraud and the various forms it takes in society.

Four **SRS Advisory Councils** are working to improve the dialogue with unions and business associations, non-governmental organisations and other interested parties, as well as to jointly address various tax administration and customs issues. In 2021, ten meetings of the SRS Advisory Councils took place in total:

- six meetings of the SRS Development Advisory Council, during which the main topical aspects of the Strategy were examined and discussed, a think tank was organised on the methods of control, amendments to the Law on Taxes and Duties to outline the actions of the tax administration in preparing tax calculations, matters concerning the availability of additional data in the SRS public database and a new approach to tax administration in the area of ‘envelope salaries’, proposals on the criteria determined by the SRS for the issue of a tax invoice on the basis of the respective calculation and proposals provided by sectoral associations on combating ‘envelope salaries’ and reducing the informal economy, were examined and discussed;
- one meeting of the Tax Advisory Council, during which matters concerning possible amendments to the VAT regulatory framework regarding input taxes adjustments for lost debts, as well as on the inclusion of accounts receivable in the PIT base were examined;
- two meetings of the Excise Duty Advisory Council, at which current issues on the circulation of excisable goods, trends in excise duty revenues, planned changes in laws and regulations were examined;
- one meeting of the Customs and Business Advisory Council, during which topical customs issues were examined, including the implementation of the Union Customs Code requirements in customs information systems, introduction of the E-commerce Directive, throughput of border-crossing points on the eastern border.

In total, as of 30 December 2021, **agreements** have been entered into with **45 foundations and sectoral associations**.

In order to jointly fight against tax evasion and ‘envelope salaries’, promote conditions of fair competition and interest business operators in showing initiative and understanding in sorting out issues concerning compliance with

tax obligations in their sector, the SRS signed five new cooperation agreements in 2021:

- with the Association of Accountants of the Republic of Latvia on 15 April 2021;
- with the Association of Competent Occupational Safety Institutions on 26 July 2021;
- with the Latvian Association of Meat Producers and Meat Processors on 10 September 2021;
- with the “Latvijas Mēbeles” (*Latvian Furniture*) Association on 30 September 2021;
- with the Latvian Association of Cosmetics Manufacturers on 29 December 2021.

Simultaneously, in 2021, two cooperation agreements were renewed — with the Latvian Association of Polygraphy Companies and the Latvian Association of Maintenance Services, Sellers and Manufacturers of Cash Registers and Systems — and necessary amendments were introduced to the terms and conditions thereof.

As the result of the **study** performed in 2021, it was established that assessment on the satisfaction of sectoral associations with cooperation with the SRS (on a scale of 1 to 10) was 7.83 (exceeding the respective figure of 2020 by 0.16 points).

**Measures for overcoming the COVID-19 crisis** from the beginning of the year to 31 December 2021:

- based on Section 4, Paragraph one or Section 4<sup>2</sup> of the Law on the Suppression of Consequences of the Spread of COVID-19 Infection, in connection with the spread of COVID-19, term prolongations were granted to 1514 taxpayers for the total amount of EUR 62.55 million by 2752 decisions;
- aid was granted for overcoming the COVID-19 crisis:
  - downtime benefits were paid to 76 320 individuals in the total amount of EUR 135.92 million;
  - salary subsidies were paid to 49 376 individuals in the total amount of EUR 33.38 million;
  - grants were paid to 11 397 applicants for compensating the drop of the flow of current assets in the total amount of EUR 513.96 million.

## 7. Activities Planned in 2022

In order to continue implementing the strategic initiatives purposefully as set out in the SRS Development Strategy for 2020-2022, aimed at promoting voluntary compliance with tax obligations, **the challenges and priorities for the SRS in 2022** shall be as follows:

- successful implementation of the RRF Plan projects:
  - to strengthen the development of analytics and data management in the area of tax administration and customs, to continue developing the taxpayer rating system, to optimise the methods of control;
  - to commence the implementation of e-invoice projects, as well as to ensure the development of digital services promoting cross-border cooperation in the area of taxes;
  - to strengthen the capacity of the Customs Laboratory;
  - to improve and develop the customs control infrastructure and technical equipment;
- development of the digital ecosystem by implementing PAIS and customs environment development projects;
  - implementation of the targeted communication for promoting voluntary compliance with tax and customs obligations;
  - introduction of automatic punishment for the failure to observe the term for submitting tax declarations or informative declarations or for not submitting tax declarations or informative declarations;
- restriction of the informal economy:
  - to reduce non-declared income from employment and restrict the payment of ‘envelope salaries’, inter alia to reduce salary tax gaps;
  - to preserve or reduce the level of illegal circulation of excisable goods;
  - to reveal and prevent criminal offences in the area of state revenues and customs affairs;
  - to prevent money laundering and restrict the circulation of cash of illegal origin;
  - to regulate the circulation of equipment for the production of tobacco products;
- provision of support to businesses affected by the COVID-19 crisis;

- development of a centralised electronic payment information system (*CESOP*) in line with EU regulatory enactments and resolutions of the European Commission;
- development of an information system to implement the reporting duty of digital platform operators (*DAC7*) in line with EU regulatory enactments and resolutions of the European Commission;
- commencement of the project ‘Special Scheme for Small Enterprises’;
- modernisation of EU tax data exchange information systems;
- introduction of the OSS system changes in line with EU regulatory enactments and resolutions of the European Commission;
- development of the SRS Development Strategy for the next planning period;
- development of a new SRS Action Plan to minimise corruption and conflict of interest risks;
  - introduction of sanctions applied by the EU against the Russian Federation and the Republic of Belarus at the SRS.

### SRS studies planned in 2022:

- the assessment of satisfaction of sectoral associations with cooperation with the SRS;
- a study on the quality of service provided to taxpayers and customs customers.





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