



**State Revenue Service
2013
Public Report**

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on 13 May
2014

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Dear reader of this report,

We hereby present the SRS annual report of performance results in 2013 and the priorities for 2014.

This report not only reflects the SRS performance results in 2013 – it comprises also the results and evaluation of the implementation of the SRS performance and development strategy 2011-2013 we have completed a successive stage of SRS three year strategic planning.

The implementation of the SRS strategy began at the time of the start of economic recovery when the shadow economy was still maintained on a rather high level. In general, despite of the complicated situation of performance in the framework of restricted financial resources, of the attitude of the public towards paying of taxes in the period following the crisis – in this period of time a stable growth of tax revenues was achieved, slowly approaching the level before the crisis.

The year 2013 marked several turning points in the performance and development of the SRS. In spring 2013 the SRS Client Service Program 2013-2014 was approved. The activities implemented within the framework of this program have already contributed to essential improvements in the services provided to taxpayers and customs clients. The previous year was significant to the SRS in the area of technological development and solutions: modernisation and improvement of the Electronic Declaration was undertaken offering to the taxpayers new and more convenient electronic services essentially facilitating the compliance with tax obligations.

A special point must be made of the radical change in our approach in the communication area – we have become more open and available to dialogue and cooperation.

Providing more good quality and convenient services to the clients will be the priority of the SRS for 2014. The SRS will continue the development and improvement by promoting and securing the image of a modern, professional and client oriented tax administration.

Recognising the potential of the successful development of Latvia due to the intensive cooperation between the Baltic states and appreciating the possibilities offered by the exchange of experience and information between the tax administrations of various countries, the SRS is realising and will continue close cooperation with Lithuanian and Estonian colleagues in different issues related to tax and customs administration. Common experience of the Baltic states is reinforced by the experts of Latvia, Estonia and Lithuania identifying the approach, problems and solutions of each Baltic state concerning various issues. Our cooperation is especially essential in the monitoring and control of customs procedures, as the objective of the common effort is the introduction of similar control methods in all three Baltic states by applying customs transit procedures to the goods.

2013 was also a year of anniversary – 20 years had passed since the foundation of the State Revenue Service. In order to bring about a festive mood to everyone who during these 20 years has been engaged in the processes of SRS work and development, the best employees were specially honoured and also the most important cooperation partners were awarded. It also seemed important look back at the joint achievements in the areas of taxes and customs, in combating smuggling and financial crime, to evaluate the development of the service in 20 years and to map out the future challenges and perspectives. Therefore an international scientific practical conference “Sustainable Development of Tax and Customs Administrations within the EU” was devoted to the 20th anniversary of the foundation of SRS. The main objective of the conference was to find a new impulse for the releasing of the



potential of Latvian innovation, with a special focus to the essential aspects of putting to practical use the competencies created in universities and public research institutions.

I would like personally and on behalf of the staff of the SRS to convey the most sincere gratitude to all honest taxpayers whose initiative, knowledge, talent and daring to embody their ideas in business activities ensures and promotes the development of our country!

I hope that this Annual Report will be a useful source of information not only for the specialists and entrepreneurs of the specific area but also to everyone who is interested in the development of Latvia and its perspectives and will initiate a constructive dialogue between the representatives of public sector, various non-government organisations and other involved interest groups.

A handwritten signature in blue ink, appearing to read 'Ināra Pētersone', with a large, stylized flourish on the left side.

Ināra Pētersone
Director General of the
SRS

Abbreviations used in the Report

AEO – Authorised Economic Operator
EDS – Electronic Declaration System
EC – European Commission
ECDPS – Electronic Customs Data Processing System
ERDF – European Regional Development Fund
EU – European Union
PIT – Personal Income Tax
CM – Cabinet of Ministers
TSA – Taxpayer Support Activity
VAT – Value Added Tax
PBO – Public Benefit Organisation
SIA – Limited Liability Company
CIT – Corporate Income Tax
SAD – Single Administrative Document
SRS – State Revenue Service
MSSIC – Mandatory State Social Insurance Contributions

1. Background information

1.1. Legal status and main tasks of the SRS

In accordance with the law “On State Revenue Service” the SRS is a direct administrative authority under the supervision of the Minister for Finance, which ensures the accounting of tax payments and taxpayers, the collection of State taxes, fees and other mandatory payments specified by the State in the territory of the Republic of Latvia, as well as collects taxes, fees and other mandatory payments for the budget of the European Union, implements the customs policy and organises customs matters.

The principal tasks of the State Revenue Service are:

1) to ensure the collection of State taxes, fees and other State mandatory payments administered by the State Revenue Service in the territory of the Republic of Latvia and on the customs border, as well as the collection of taxes, fees and other mandatory payments for the budget of the European Union;

2) to participate in the development of customs policy, tax and fee administration and disclosure of violations of the law in the field of State revenue and to implement such policy.

To develop draft development planning documents, draft informative reports and draft legal acts in the relevant field;

3) to prevent and detect criminal offences in the field of State taxes, fees and other mandatory payments specified by the State;

4) to ensure the training of civil servants (employees) of the State Revenue Service, as well as in accordance with the procedures specified in this Law to consult taxpayers regarding issues on the application of tax regulatory enactments;

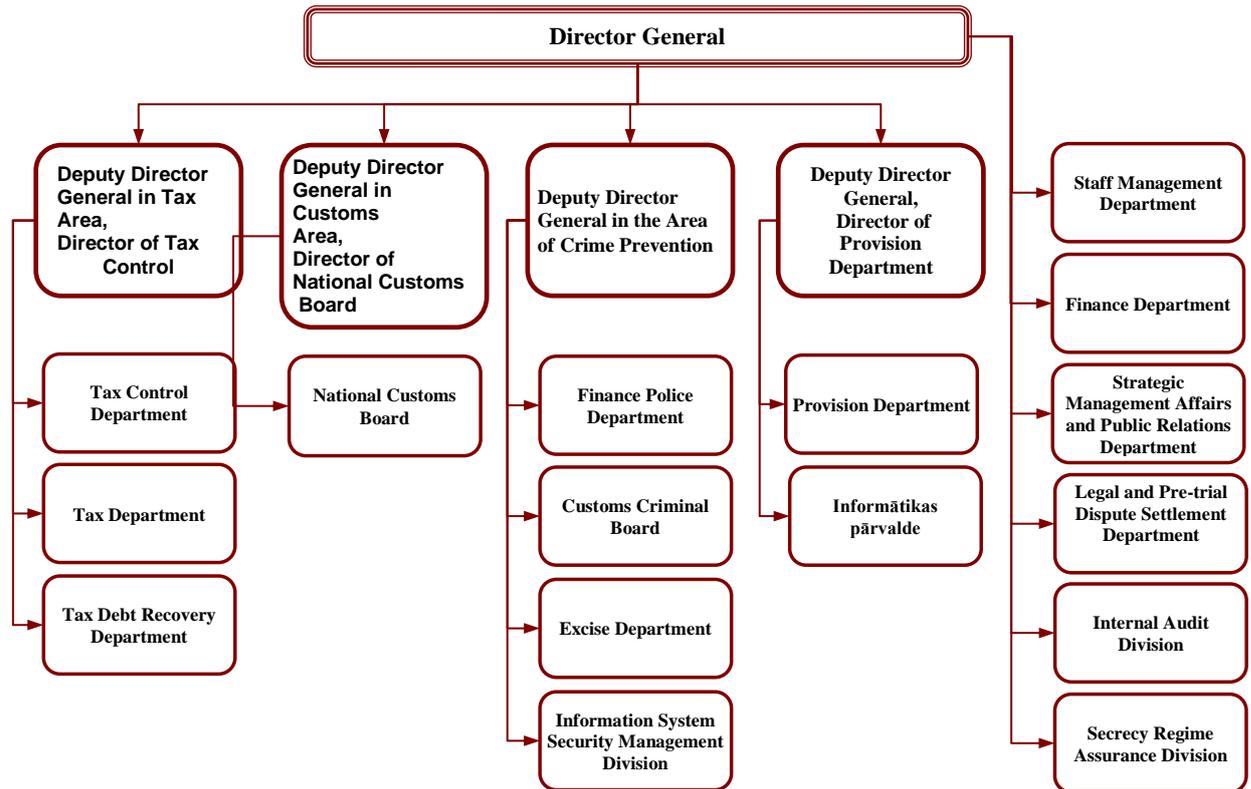
5) in accordance with the procedures specified in laws and Cabinet regulations to register and enumerate taxpayers and to control the conformity of registration documents with the requirements of the law and actual circumstances;

6) to ensure the execution of the regulatory enactments regulating the movement of goods subject to excise duty;

7) to ensure the supervision of public benefit organisations pursuant to the procedures specified in the Public Benefit Organisations Law;

8) to provide the necessary information (also without a previous request) and to coordinate exchange thereof in order to ensure mutual assistance in recovery of tax claims, as well as to maintain contact with tax authorities (competent authorities) of European Union Member States.

Organisational structure of the SRS



In accordance with SRS Regulations approved on 14 November 2013 the SRS is managed by Director General to whom four Deputy Directors are directly subordinated: Deputy Director General in Tax Area, also serving as Director of Tax Control Department, Deputy Director General in Customs Area, also serving as Director of Customs Department, Deputy Director General in the Area of Crime Prevention, and Deputy Director General in also serving as Director of Provision Department.

Six self-dependent structural units are directly subordinated to Director General: Finance Department, Internal Audit Department, Legal and Pre-trial Dispute Settlement Department, Staff Management Department, Secrecy Regime Assurance Division and Strategic Management Affairs and Public Relations Department.

1.2. Directions and objectives of SRS performance and development strategy as set out by the SRS Strategy 2011-2013.

SRS Mission

Fair administration of taxes, protection of the public and commercial activity in accordance with the principles of good governance and general public good while implementing the requirements and priorities established by the Latvian State and the European Union (EU).

SRS Vision

SRS is a client-oriented State administration institution in the area of tax and customs administration, which is competitive within the EU and which promotes a successful commercial activity and ensures the highest levels of security on the external EU border.

SRS Values

- Integrity – we are fair in application of legislation and decision making, correct in relations with clients, colleagues and cooperation partners.
- Professionalism – we have a high level knowledge necessary for doing the job, we know how to apply it efficiently in daily work and we constantly aspire to supplement the knowledge.
- Responsibility – we perform our tasks and duties both independently and as part of a team, and we achieve the best possible results. We always provide support and assistance to colleagues where necessary.
- Loyalty – in executing our job duties we are loyal to the interests of state and society, always treating them as a priority.

SRS Strategic Objectives

In order to implement the SRS mission, three strategic objectives have been highlighted in the Strategy:

- to promote voluntary tax and customs compliance ;
- to ensure the protection of the State's fiscal interests and the public and to develop an environment that is favourable for honest commercial activity.
- to increase the efficiency of SRS work performance.

1.3. Priorities and Main Tasks for 2013

In order to meet the target figures for the collection of revenues administered by the SRS and the implementation of SRS performance and development strategy as set out by the SRS Strategy 2011-2013 with a special focus on combating of the shadow economy and the promotion of fair competition, the following priorities of SRS performance in 2013 were approved:

- Prevention of VAT revenue losses, reduction of the number of tax compliance violations caused by illegal employment and “envelope salaries”, and also restriction of unregistered business activities by the implementation of surveillance programs;
- strengthening of control capacity in order to increase the number of controls targeting legal persons;
- combating of organised crime and corruption in the area of state revenues;
- conducting of customs control activities in the priority areas: restriction of excise goods smuggling, combating of the contraband of narcotic and psychotropic substances, combating of organised crime groups.

The SRS in 2013 accomplished the tasks set out by the legislative acts, implemented the tasks of SRS performance and development strategy plan including also the tax compliance strategy for 2010-2013 and participated in the implementation of several plans of nationwide scale:

- the Government Action Plan for the implementation of the measures included in the Declaration on the intended activities of the Cabinet of Ministers headed by Valdis Dombrovskis;
- Plan of the activities aimed at the improvement of business environment in 2013;
- Action plan of the law enforcement institutions for 2013 with the objective of activating the combating of illegal movement of excise goods in Latvia; etc.

2. Financial Resources and their use

2.1. State budget funding and its use

In accordance with law “On State Budget 2013” the SRS has used the state budget subsidies in accordance with the approved programs and subprograms of the basic budget, covering of revenue collection expenses and the cost estimates and financing plans of the planned expenditures.

The total financing allocated to the SRS in 2013 and its use in lats

| Nr. | Financial Indicators | 2012 (actual implementation) | 2013 | |
|-----------|--|------------------------------------|-------------------|--------------------------|
| | | | Target figure | Actual implementation |
| 1. | Financial resources covering expenses (total) | 63 112 722 | 66 002 748 | 65 903 924 |
| 1.1. | Subsidies | 61 917 651 | 65 467 715 | 65 467 715 |
| 1.2. | Paid services and other own revenues | 32 961 | 93 156 | 72 657 |
| 1.3. | Foreign financial assistance | 1 162 110 | 441 877 | 363 552 |
| 2. | Expenditures (total) | 62 241 552 | 68 143 682 | 66 005 345 |
| 2.1. | Maintenance expenditures (total) | 57 948 877 | 59 875 237 | 59 524 377 |
| 2.1.1. | Current expenses | 57 881 092 | 59 875 237 | 59 524 377 |
| 2.1.2. | Transfers of maintenance expenses | 67 785 | - | - |
| 2.2. | Capital investment expenses | 4 292 675 | 8 268 445 | 6 480 968 |

2.2. Usage of budgetary programs and subprograms and the results of their performance

The state budgetary resources allocated to the SRS in 2013 were spent in the amount of **LVL 66 005 thous.** or by 96,8 % of the planned amount incl.:

- 1) The state budgetary resources allocated for the implementation of the program 33.00.00 “Implementation of State Revenue Plan and Customs Policy” in 2013 were used in the amount of LVL 62 002 thous., or by 99,8 % of the planned financing .

| Effective indicator | Plan of effective indicator in the reporting period | Execution of the effective indicator in the reporting period | Difference between plan and execution in the reporting period (in absolute figures) | Difference between plan and execution in the reporting period (percentage) |
|--|---|--|---|--|
| Total revenues of administered taxes and fees (m .LVL) | 4 594,36 | 4 800,22 | 205,86 | 4,5 |
| VAT (m .LVL) | 1 126,47 | 1 171,44 | 44,97 | 4,0 |
| Excise duty (m LVL) | 507,30 | 513,71 | 6,41 | 1,3 |
| CIT (m LVL) | 267,00 | 254,76 | -12,24 | -4,6 |
| PIT (m .LVL) | 872,86 | 934,81 | 61,95 | 7,1 |
| MSSIC (m. LVL) | 1 469,25 | 1 529,89 | 60,64 | 4,1 |
| Other tax and non-tax payments | 351,47 | 395,61 | 44,14 | 12,6 |

- Increase of the state budget revenues administrated by the SRS can be explained by the increased growth rate of Latvian economy and also by the increase of the efficiency of the SRS tax administration activities. The excessive fulfilment of the revenue plan in 2013 was achieved mostly due to the increased collections of VAT, PIT, MSSC and other non-tax revenues.;

- The failure to meet the target figures of the CIT collections in 2013 was due to increased refunds of the CIT as compared to 2012 by 9,96m LVL or by 24,8% and also to the small increase of payments – by 7,3%, which is by 8,4 percentage points less than in 2012.

The state budgetary resources allocated for the implementation of the program 37.00.00 “Ensuring the Necessary Documentation for Legal Movement of Goods” in 2013 were included into the program 33.00.00 “Implementation of State Revenue and Customs Policies”. The budgetary resources allocated for ensuring the necessary documentation for legal movement of goods were used in the amount of LVL 1 368 thous., or in full extent of the planned budgeting.

| Effective indicator | Plan of effective indicator in the reporting period | Execution of the effective indicator in the reporting period | Difference between plan and execution in the reporting period (in absolute figures) | Difference between plan and execution in the reporting period (percentage) |
|--|---|--|---|--|
| Excise duty stamps issued to alcoholic beverages (thous.). | 85 000,0 | 92 242,2 | 7 242,2 | 8,5 |
| Excise duty stamps on tobacco goods (thous.). | 112 000,0 | 105 779,1 | -6 220,9 | -5,6 |

2) The state budgetary resources allocated under the subprogram 62.07.00 “Local Government and Open Tenders Financed by the ERDF (2007-2013)” to the project “Development, Improvement and Maintenance of EMDPS (Electronic Customs Data Processing System)” and to implementation of the project “Adaptation of the SRS IT Systems for the Introduction of EUR” were used during 2013 in the amount of 3 261 tūkst. latu jeb 100 %.;

3) Under the subprogram 73.06.00 “The financial resources allocated as part of agreements between the European Commission (with participating Member States) and tobacco manufacturers” LVL 333 thous. or 15,3 % of the planned budgeting were used in 2013.

Within the framework of foreign financial assistance resources allocated under the “Japan Tobacco International” project in 2013 customs technical equipment was acquired for operational needs in the fight against the contraband of cigarettes. Several other purchases were made. Taking into the consideration the large and time consuming procurement procedures the signing of contracts and implementation of concluded contracts will be continued in 2014. Under the subprogram the use of financing allocated to the SRS (2010-2013) by the projects of “Japan Tobacco International”, “British American Tobacco” and “Imperial Tobacco Limited” is continued in 2014.

4) Under the subprogram 73.07.00 “Projects Financed by the European Community for the Improvement of Internal Market of Tax and Customs System” LVL 221 thous. or 58,5 % of the planned budgeting were used in 2013. Under the subprogram the activities of enhancing the qualification and acquiring international experience of the SRS officials under the EU

programs “Fiscalis 2013” and “Customs 2013” are implemented. As the financial year for the implementation of the projects of the subprogram starts on 1 April of the current year and ends on 31 March of the following year, the remaining financing will be used to cover the expenses in 1st quarter of 2014.

In 2013 the budgeting of the program „Fiscalis 2013” was used for the participation of 144 SRS specialists in 82 working visits organised in tax administrations of foreign countries in relation to tax administration issues. The SRS in turn hosted 6 working visits of 27 participants from tax administrations of other countries. Within the framework of the budget of the program “Customs 2013” 203 SRS specialists took part at 147 events related to customs issues, and eight incoming working visits were hosted with 20 participants from customs administrations of other countries. In September 2013 within the program “Customs 2013” first session was held of the working group of Baltic states on the monitoring and control of consecutive customs procedures. The objective of the working group is implementation of similar control methods in Baltic countries imposing transit customs procedure to the goods.

5) The co-financing allocated under the subprogram 73.08.00 “The Projects Implemented by the SRS in the Area of Protecting Fiscal Interests” was used in 2013 in the amount of in the amount of LVL 181 thous or 100% of the allocated budgeting. Within the subprogram the Hercule II and Pericles projects “Support of the Procurement of Technical Equipment” and “Training of Service Dog Instructors” was financed.

6) Under the program 99.00.00 “The Use of Resources in Unforeseen Situations” in 2013 were used LVL 181 thous. or a full extent of the allocated financing. Within the framework of the program participation of Latvian specialists in the events organised by the OECD in 2013 was financed (working visits, training etc.).

3. The SRS Performance Results

3.1. Services provided to taxpayers and customs clients

3.1.1. Improvements implemented in the area of client services

In order to implement a uniform providing of services at all locations of rendering services to the SRS taxpayers and customs offices, to improve the quality of services provided to clients and to increase the degree of satisfaction with the SRS services and also to reduce the administrative burden, the following arrangements were made:

- taxpayer and Customs client service standards were implemented, system monitoring the compliance with these standards was established;
- e-mail address VID.serviss@vid.gov.lv for the comments of the taxpayers regarding the quality of the services provided by the SRS;
- one-stop agency principle was introduced at all 32 Client Service Centres;
- preparations were made for the migration of the public services provided by the SRS to the new environment at the unified portal www.latvija.lv of public and municipal services and the current services provided by the SRS were supported;
- starting from 1 January 2014 database (register) of natural persons conducting business activities is publicly available;
- as of 1 April 2014 public database of debtors of taxes and fees administered by the SRS, whose amount of debt exceeds LVL 100, is available at the SRS Internet site;
- Electronic Declaration System was improved making it more secure and convenient for the users:
 - filling in of the annual income declaration was simplified by ensuring automatic indication of the information available to the SRS;
 - as of 4 March 2013 a new VAT taxation period return is available to the taxpayers merging the attachments which had been filed at the EDS as separate documents. The VAT return can now be filed at the EDS with the attachments as a single document;
 - starting from 1 May 2013 a new communication platform was introduced for the communication between the SRS and the taxpayer. Notifications regarding administrative acts, rulings and other information can be sent to the taxpayer's registered e-mail address;
 - since 9 July 2013 the users of internet banks have the possibility to connect to the EDS making use of the authentication tools offered at www.latvija.lv (Swedbank, SEB, Citadele, Norvikbanka, Nordea, DNB);
 - declaration error correction module was supplemented by a clear indication to the nature of the error and to the possible versions of adjustment.
- starting from 1 October 2013 the taxpayers can apply for the SRS news regularly sent to the registered e-mail addresses on the issues of interest to the taxpayers;
- as of 2 December 2013 the taxpayers can apply electronically at the Internet site of the SRS for in-depth consultations;
 - the number of days for the registration at the SRS Register of VAT payers has been reduced from 10 to five working days for the traders who do not have any of the registration risk features (in force as of 1 January 2013);
 - simplified record keeping and reduced requirements concerning filing of annual reports by small size companies and foundations;
 - electronic processing of mail delivery notes and waybills declared orally by natural persons was implemented; electronic submission of cargo documents from ships
 - electronic submission of cargo documents from ships was implemented making use of the National Shipping Surveillance and Information Exchange System (*Safe Sea Net*), accelerating the customs clearance procedures of the ships;
 - priority in servicing of the authorised economic operators was introduced by accepting the cargo documents submitted by the AEO for processing out of turn.

In order to make further improvement in providing services to taxpayers and customs clients in the SRS „Client Service Program 2013-2014” was developed and approved on 15 May 2013.



Foto: VID

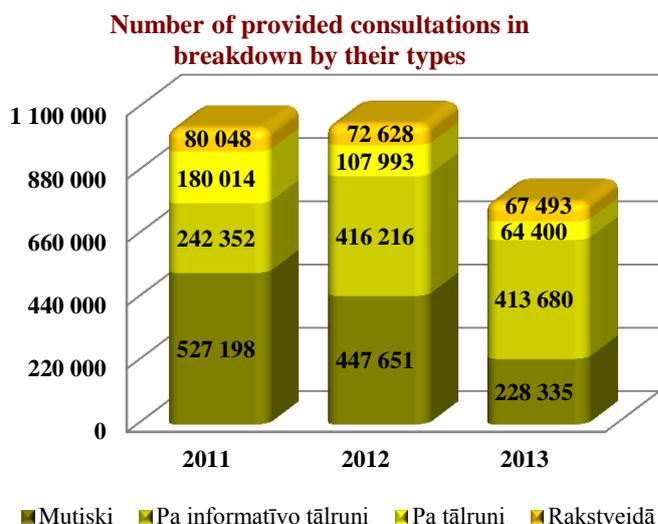


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3.1.2. Total number of services provided by the SRS

In 2013 the total of 210 public services were available to the SRS clients, incl. electronic requesting and/or receipt was available to 181 types of services. Approximately 10 170 796 times the services were provided to taxpayers in 2013.

Providing consultations and information to taxpayers and customs clients



773 908 consultations to taxpayers and customs clients were provided in 2013, by 270 580 or by 26% less than in 2012. Consultations to taxpayers were provided orally in presence at client service centres, in a written form (by documents or electronically) and also by phone. Of the total number of consultations the biggest number - 53% or 1898 were made by info line of the SRS, however in comparison to 2012 their number had slightly decreased: by 2 536 consultations or by 0,6%. The decrease in the total number of consultations was mostly due to the reduction of the number of consultations provided to the visitors of the client service centres – almost two times. It can be explained by the growth of the number of EDS users who visit the client service centres less frequently.

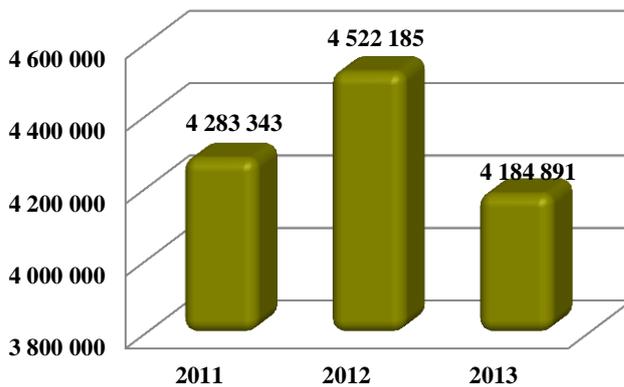
In 2013 a total of 714 informative activities (seminars, lectures, discussions etc.) were organized for taxpayers and also 104 information and 17 methodological materials were prepared.

459 references were given in 2013 to taxpayers regarding their rights in a specific legal situation.

Processing of tax and customs documents

In 2013 a total of 4 184 891 reports, tax and excise declarations and customs documents were received and processed, which is less than the respective number of 2012 by 337 294 reports, declarations and customs documents or by 7%. The decrease in the number

Number of reports, tax and excise declarations and customs documents received by the SRS

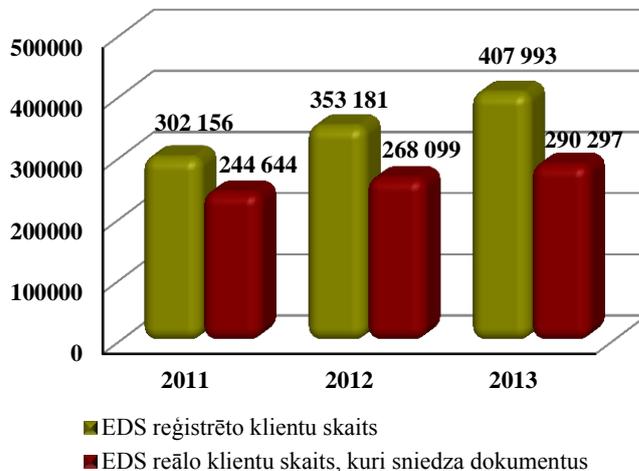


of reports and declarations in 2013 can be explained by additional submission in 2012 of 132 033 declarations of natural person status to the SRS. Additionally the decrease of the received documents was influenced by the introduction of a new form of VAT taxation period return in which six attachments were merged. The decrease of the number of customs documents is related to the downfall of the amount of transit cargos and downturn of the growth rate of exports of goods influencing the decrease of the number of processed transit and export declarations. 1 443 650 tax declaration data quality

checks were made in 2013 which is by 630 056 checks less than in 2012. The decrease in the number of data quality checks was caused by both the total number of documents received in 2013 and by the improvements accomplished in EDS implementing several automatic inspections of data preventing the filing of declaration in case of detected errors or discrepancies. 263 151 data credibility verifications were applied to the accepted VAT, CIT declarations, employer reports, which is by 27 949 or 12% more than in 2012.

The EDS run by the SRS provides the taxpayers with the possibility of convenient and fast filing by Internet connection the tax and information declarations as well as the reports, applications and other documents.

Number of registered and real users of EDS by the end of period



In 2013 out of the total number of reports and declarations submitted via EDS in the area of taxes and excise duties 96,3% were submitted electronically exceeded the respective number of 2012 by 1,4 percentage points.

By the end of 2013 as EDS clients 407 993 taxpayers were registered including 182 448 legal persons and 225 545 natural persons.

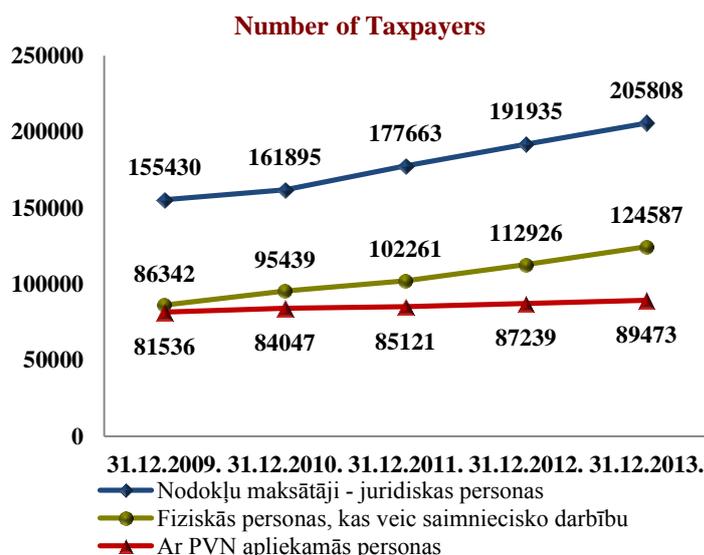
In 2013 as compared to 2012 the number of natural persons registered in EDS increased by 19% and the number of annual income declarations filed via

EDS increased by 22% due to the simplification of the procedure of filing the declarations and providing public information about it.

In 2013 out of the total number of submitted customs documentation 89% were processed electronically. In comparison to the previous year the proportion of electronically filed documents had increased by 6 percentage points.

3.1.3. Services in the area of tax administration

Registration of taxpayers



The number of taxpayers by the end of 2013 has increased in all taxpayer segments in comparison with the corresponding period of the previous year: the number of legal persons increased by 7,2%, the number of natural persons establishing commercial activities increased by 10,3% and the number of VAT taxable persons grew by 2,6%.

Refund of the overpaid taxes

Refunds of the overpaid VAT, CIT and PIT were made to taxpayers.

| Indicator | Refunds of overpaid taxes were made*** | | | |
|-------------------------------------|--|-------------------------------------|-----------------|-----------------------------|
| | 2013, LVL m. | Changes as compared to 2012, LVL m. | Numbers to 2013 | Changes as compared to 2012 |
| VAT collected in domestic territory | 698,08 | + 24,82 | 140 354 | + 30 065 |
| CIT * | 50,11 | + 9,96 | 13 251 | + 2 188 |
| PIT ** | 36,50 | + 3,70 | 324 458 | + 19 566 |

* Amounts refunded from CIT, not including the amounts refunded from the profit tax areas.

** The refunds paid into the taxpayer accounts in accordance with the results of annual income declarations.

*** VAT and CIT refunds including the refunds of overpaid taxes diverted to the other tax payments and to the refund of erroneously made payments.

As a result of evaluation of refund claims made by taxpayers, VAT refunds were denied in the amount of LVL 13,81m and PIT refunds were denied in the amount of LVL 1,32 m.

Taking into the consideration the continuous improvements of EDS and the amendments in legislative acts, the duration of approval procedure of the overpayment refund claims has considerably decreased in 2013 as compared to previous years.

| Indicator | Average duration of approval, days | | |
|-------------|------------------------------------|------|------|
| | 2011 | 2012 | 2013 |
| VAT refunds | 23 | 21 | 15 |
| CIT refunds | 17 | 10 | 9 |
| PIT refunds | 55 | 49 | 44 |

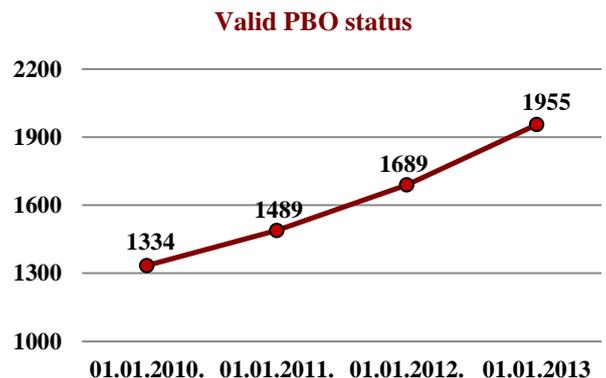
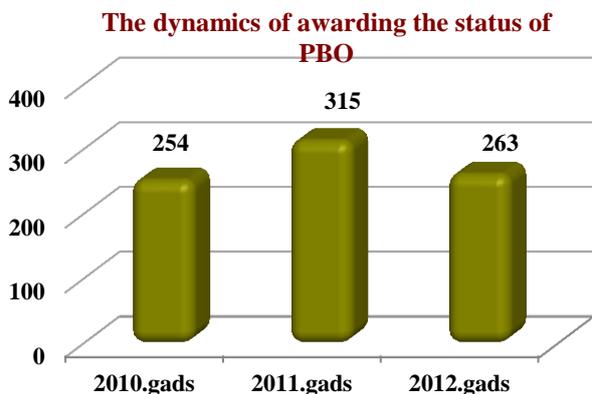
Enhanced Cooperation Program

Starting from 7 July 2012 the taxpayers could apply for the status of the participant of Enhanced Cooperation Program (hereinafter – Program) offering the privileges and benefits provided by the state. The objective of the Program is to promote closer and more effective cooperation between taxpayers and tax administration by easing the administrative burden. By 31 December 2013 the total of 93 applications were received by the SRS. 50 taxpayers were included into the Program.

3.1.4 Awarding the Status of Public Benefit Organisation

The Status of Public Benefit Organisation (hereinafter – PBO) in 2013 out of 340 applications submitted was awarded to 227 non-government organisations mostly in the following areas of public benefit activities, which is by 36 decisions less in comparison to 2012.

- in the area of support of sports activities to 62 organisations;
- in welfare area to 109 organisations;
- in the area of the development of civil society to 65 organisations;
- in the area of culture to 44 organisations;
- in the area of increasing the welfare of the groups of poor and socially less protected persons to 22 organisations;
- in the area of protection of natural environment to 11 organisations;
- in the area of promoting science to 4 organisations;
- in the area of providing assistance in emergency situations and disasters to 2 organisations.



3.1.5 Customs services

Processing of customs procedures

The total number of export customs declarations, or SAD, processed in Latvia has diminished by 14% as compared to 2012. The total value of exported goods has decreased by 3 % (according to customs declarations, the total value of goods exported in 2013 was LVL 2,19 billion, which is by LVL 66,3m less than in 2012). In 2013, the largest categories of goods in terms of the statistical value of exported goods were beverages, alcoholic liquids and vinegar, mechanisms and mechanical devices, timber and timber products, iron and steel, electrical devices and equipment, grain products in the total amount of LVL 1,14 billion or 52,1% of the total statistical value of the exported goods.

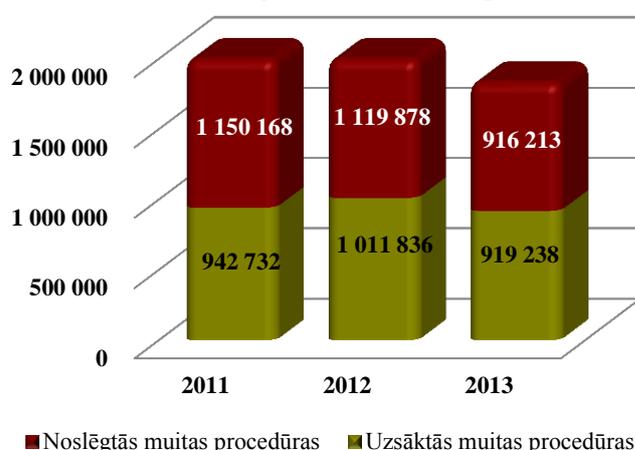
In 2013, in terms of the statistical value of exported goods, the largest amount of goods was exported to Russia, Norway and Belarus. The goods exported to Russia included beverages, alcoholic liquids and vinegar at the total value of LVL 266,8m mechanisms and

mechanical devices valued LVL 106,4m mechanisms and mechanical devices in the value of LVL 106,4m electrical equipment and devices in the amount of LVL 67,4m exports to Norway included timber and timber products valued LVL 31 m; iron or steel products valued LVL 27,2m, oil products in the value of LVL21m exports to Belarus included mechanisms and mechanical devices in the value of LVL 19,2m optical devices and equipment in the value of LVL 14,2m pharmaceutical products in the value of LVL 9,2m.

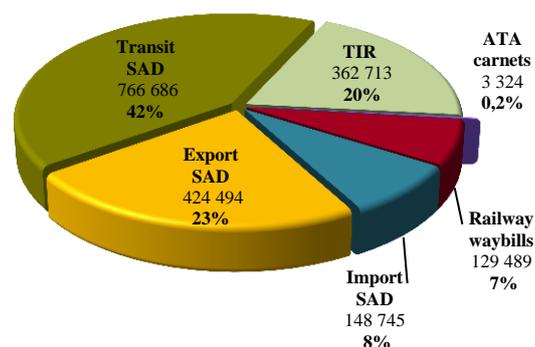
The number of import customs declarations for the release of goods for free circulation processed in 2013 increased by 2%. The total statistical value of imported goods has decreased by 4,8% (according to customs declarations, the total value of goods imported in 2013 was LVL 1,88 billion, which is by LVL 95,64m less than in 2012). In 2013, the largest categories of goods in terms of statistical value were mineral fuels, iron and steel, electrical devices and electrical equipment, which account for LVL 971,63 or 52% of the total statistical value of imported goods.

In 2013 as in the previous year, the largest amount of goods for release for free circulation in terms of statistical value was imported from Russia, Belarus and China. In 2013, imports from Russia included mineral fuels valued LVL 409,42m, iron and steel valued LVL 115,83 m, fertilisers valued LVL41,04m; imports from China included electrical devices and electrical equipment valued LVL 88,44m, mechanisms and mechanical devices valued LVL 53,19m, furniture and bed accessories valued LVL 13,95 m; imports from Belarus included mineral fuels valued LVL 144,8 m, timber and timber goods in the value of LVL 16,13m, iron and steel valued LVL 11,62m.

**Customs procedures processed in Latvia
(including initiated and completed)**

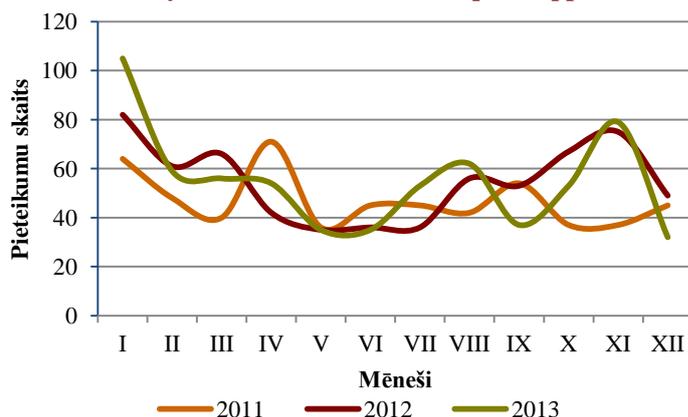


**The customs documents processed
in 2013 in breakdown by type of
documents**



Administration of EU tariff quotas

Dynamics of the number of quota applications

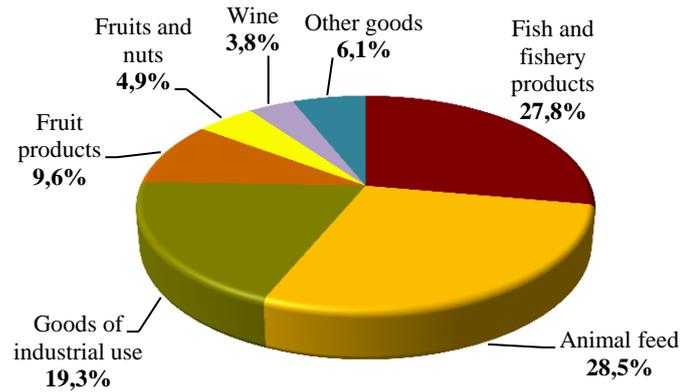


In order to make use of the opportunity to import certain categories of goods from third countries at a reduced or zero rate of customs tariff, in 2013 Latvian traders filed 660 tariff quota applications, and in 16 cases after the release of the goods for free circulation. The requested tariff quotas were granted in full in 645 cases and partially in three

cases, partly granted in 13 cases, rejections due to the exhaustion of the requested quotas were issued in two cases.

The highest demand in Latvia in 2013 was for tariff quotas on imports of food products and animal feed: fish and fishery products (herring, mackerel of Norwegian origin and herring of Icelandic origin) accounted for 27,8 %, animal feed accounted for 28,5% of the total of quantity of goods for which quotas were requested; fruit products (orange juice concentrate of Mexican and Israeli origin) accounted for 19,6%. Of the total quantity of goods for which tariff quotas were requested in 2013, 19,37% were goods for industrial use (mainly ferrosilicon and ferrosilicon manganese products of Ukrainian origin).

Ratio of quoted goods in 2013



Issuance of customs permits

The objective of customs policy initiatives at EU and national level is minimalizing of administrative obstacles and facilitation of business activities by providing the opportunity of using various reliefs of customs procedures maintaining at the same time appropriate customs control.

In order to speed up and simplify the customs clearance procedures, the traders have an opportunity to obtain a permit to apply simplified procedure at local customs clearance and/or to apply the procedure of simplified declaring, the permit for the use of authorised consignee and consignor and also to use the AEO certificate.

| Title of permit | Total number of valid permits (status) by 31.12.2013. |
|---|---|
| 1. Permits for simplified procedures (number) | 53 |
| 1.1. For the application of simplified declaration procedure | 20 |
| 1.2. For the application of local customs clearance procedure | 46 |
| 2. Permits for the use of the status of an authorised consignee and authorised consignor (number) | 85 |
| 2.1. For the application of the status of an authorised consignee | 72 |
| 2.2. For the application of the status of an authorised consignor | 76 |
| 3. Authorised economic operator (AEO) certificate | 18 |

3.1.6 Services in the area of excise goods movement

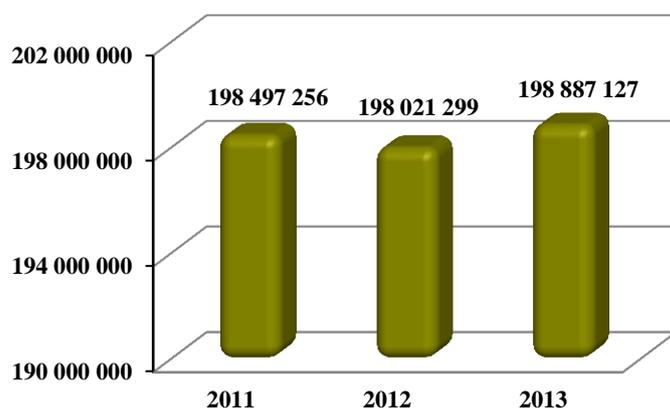
The total number of licences, permits, statements and certificates issued in 2013 was 2 703, and 1 780 of the documents were renewed.

Due to the detected violations of legislation 659 licences, permits, statements and certificates authorising the handling of excise goods were revoked in 2013.

On 31 December 2013 the total number of valid licences, permits, statements and certificates in the area of excise goods movement was 11 627.

In order to enable the traders to deal with excise goods and to make use of the suspended regime of excise duty payment, the SRS in 2013 has issued and renewed the registration of 270 excise duty general security certificates and 105 singular use security certificates.

Number of issued excise duty stamps



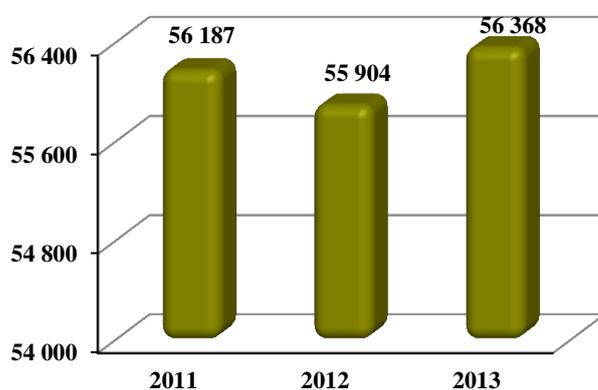
The total number of excise duty stamps issued in 2013 was 198 887 127, incl. 92 997 615 alcoholic beverage stamps and 105 889 512 excise duty stamps for marking tobacco goods.

3.1.7 Services in the area of prevention of conflict in the activities of public officials

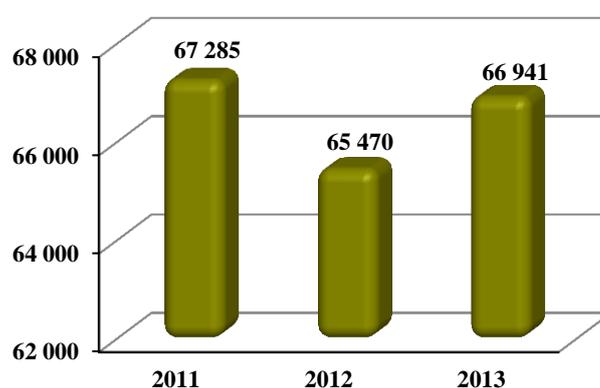
By 1 January 2014, 56 368 public officials were registered in the country exceeding the respective number of 2012 by 1%.

The total number of the declarations of public officials submitted in 2013 was 66 941 and 7 851 are the lists of a public officials and amendments to them.

Number of public officials



Number of declarations filed by public officials



3.1.8. Paid services

Realisation of strict accountability seals

The service is provided in accordance with Cabinet Regulations No 82 on 31 January 2006 “Regulations Regarding the Price List for the Paid Services Provided by the State Revenue Service” with the purpose of ensuring the sealing of cash registers, cash systems, specialised devices and equipment with strict accountancy seals where the security elements developed by the SRS are installed: a printed serial number of the seal (marked by three Latin alphabet letters) and the serial number consisting of six digits. 59 084 strict accountancy seals were realised in 2013 for the amount of LVL 861.

Realisation of customs security wire type seals

The service is provided in accordance with Cabinet Regulations No 82 on 31 January 2006 “Regulations Regarding the Price List for the Paid Services Provided by the State Revenue Service” including the terms of realisation of the wire type customs security seals to the traders with the purpose of moving the goods across the border. 10 500 wire type customs security seals were delivered to the traders in 2013 in the amount of LVL 2 205.

Realisation of customs security stickers

The service is provided in accordance with Cabinet Regulations No 82 on 31 January 2006 “Regulations Regarding the Price List for the Paid Services Provided by the State Revenue Service” including the terms of realisation of the customs security seals to the traders with the purpose of moving the goods across the border. 2100 customs security stickers were realised to the traders in 2013 in the amount of LVL 252.

Conclusions regarding the conformity of marked oil products with the requirements of legislative acts of the Republic of Latvia

In accordance with the Cabinet Regulations No 82 of 31 January 2006 “ Price List of Paid Services Provided by the State Revenue Service” this service is provided since 15 March 2013 issuing the conclusions regarding the conformity of marked oil products with the requirements of legislative acts of the Republic of Latvia. Total number of conclusions made in 2013 was 657 and the amount collected for the service was LVL 10 340,93.

In addition to these paid services provided by the SRS a state fee is established regarding the services provided by customs authorities in accordance with Cabinet Regulations No 774 on 18 October 2005 “ Regulations Regarding the State Fee Paid for the Services Provided by Customs Authorities”:

- for customs clearance outside the premises of customs authorities or after the official working hours;
- for temporary storage of goods at the locations permitted by customs authorities in case of exceeding the limit of time set for transferring the goods in the regimes of clearance or storage;
- for the correspondence of the origin of the goods or of the goods to the Combined Nomenclature code if the services of the Customs Laboratory of the Customs Board are used.

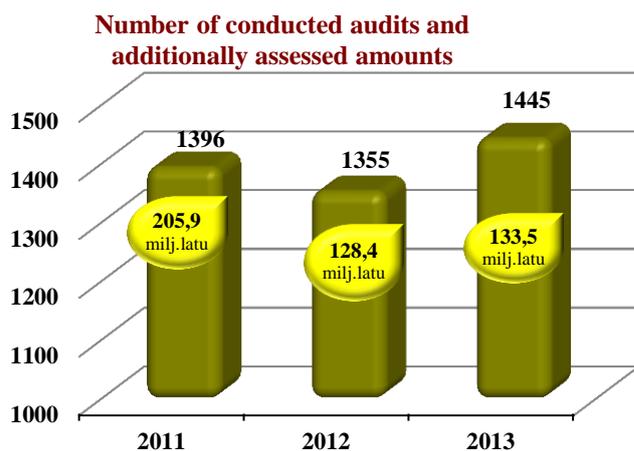
A state fee in the total amount of LVL 47 623,29 including all services provided by customs authorities was transferred into the state budget, exceeding the amount of 2012 by 5,4%.

3.2. Tax, customs and excise goods movement control

In 2013 the total number of tax, customs and excise goods movement control activities conducted by the SRS was 37 355, including:

- 1 445 tax audits;
- 1 072 excise duty audits and assessment of taxes on seized excise goods;
- 9 637 data credibility checks;
- 5 708 thematic checks;
- 4 220 inspections;
- 15 surveillance activities;
- 1659 excise goods movement supervisory inspections;
- 13 599 customs physical controls.

Tax audits



1 445 tax audits were carried out in 2013 exceeding the number of audits conducted in 2012 by 90 or by 7 %. Additional assessment as a result of tax audits in 2013 amounted to LVL 133,5 m, including LVL 125,4m assessed as a result of legal person audits and LVL 8,1m in audits of natural persons. Hit rate of tax audits was 96%.

During the reporting period before the start of tax audit the taxpayers themselves had adjusted the tax amounts of their declarations in the amount of LVL

304,1 thous., which is by 3% less than in 2012.

Excise duty audits and tax assessment on seized excise goods

In 2013 the SRS carried out 1 072 controls of excise goods both in domestic territory and on border. Additional assessment of taxes on seized excise goods was made in the amount of LVL 302,26 thous.

Data credibility checks

In 2013 the SRS carried out 9 637 data credibility checks during which the conformity of the information provided in the tax returns and customs declarations submitted by taxpayers with the information available to the SRS and contained in the regulatory acts is verified:

- in tax area - 3 748 checks;
- in customs area – 5 889;
- in excise area - 54.

As part of the data credibility inspection process, taxpayers are offered the opportunity to correct by themselves the discrepancies detected by the SRS. If this is not done, the SRS officials make the decision regarding the results of the credibility check by assessing the amount of tax payable by the taxpayer into the budget and imposing the late payment penalty. No fines are assessed as a result of data credibility check. As a result of data credibility checks additional payments into the budget in 2013 were assessed in the amount of LVL 9 558,04 thous. In turn, 962 taxpayers had themselves eliminated the detected irregularities and filed the adjusted returns adding LVL 2 492,08 thous. to the amount of taxes paid into the state budget.

Thematic checks

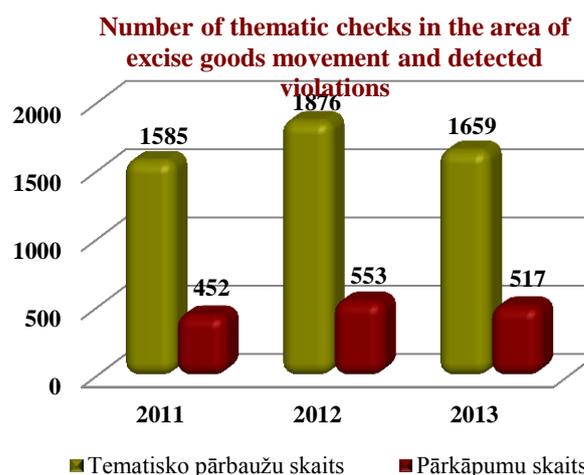
In 2013 the SRS conducted 5 708 thematic checks resulting in the application of administrative penalties in the amount of LVL 1261,9 thous. The hit rate of the thematic checks was 88 %. During the thematic checks 4 943 taxpayers were inspected: 4 334 legal entities and 609 natural persons.

Over the 2013 the majority of thematic checks – in 4 535 cases targeted the employers, in 3 242 cases company accounting systems were checked, 2 008 trade checks were made, 581 thematic checks targeted the service area and in 149 occasions - reporting of transactions made in cash and the compliance with the regulations regarding the limitation of the use of cash.

Upon performing thematic checks and finding that some taxpayers had not submitted all the necessary reports to the SRS, or that the information therein had been provided incorrectly, the SRS carries out preventive efforts, allowing taxpayers to rectify their own errors and irregularities, thus the possibility of tax evasion is reduced more promptly. During thematic examinations, 2 199 taxpayers have themselves adjusted their tax returns by the amount of LVL 2 390,4 thous.

Thematic checks in the area of excise goods movement

In 2013 the SRS conducted 1659 thematic checks in the area of excise goods. As a result of the checks violations were detected in 517 cases. Due to the development of the risk analysis system, the hit rate of the inspections has grown from 29% in 2012 to 31% in 2013. Administrative penalties in the area of excise goods movement were imposed in the amount of LVL 163,99 thous.



Inspections and monitoring activities

In 2013 at the locations of taxpayer business activities 4 220 inspections and 15 monitoring activities were conducted. In cases when the taxpayers did not cooperate with tax administration in the course of inspection, the SRS had applied fines in accordance with Latvian Administrative Violations Code in the amount of LVL 113,7 thous.

Measures restricting the business activities of taxpayers

In accordance with Art 34¹ of the law “On Faxes and Fees” the SRS has made the decisions in 2013 to suspend the business activities of 10 351 taxpayers.

In 2013 8 779 taxpayers were deregistered from the VAT payer register, the majority of whom – 4 814 (55%) were deregistered due to failure to file the VAT returns, 771 (9%) were excluded due to the suspension of commercial activity, 658 (7%) – because of failing to

submit the documents requested for checking of the VAT returns and 1 410 (16%) in accordance with their own applications.

In accordance with the Latvian Administrative Violations Code additional penalty was applied to 1 004 company board members depriving them of the right to take certain positions.

A provision was included into the law “On Taxes and Fees” regarding the corresponding of taxpayer’s address to the features of risk address. Starting on 1 July 2012 until the end of 2013 69 addresses of taxpayers were given the status of risk address. The SRS maintains the list of risk addresses and forwards this information to Enterprise Register on regular basis.

Physical customs controls

13 599 physical customs controls of transport vehicles, cargos and personal luggage were carried out in 2013, which are 7 043 controls less than in 2012. As a result of the customs controls 3 015 administrative violation protocols were made in accordance with the Latvian Administrative Violations Code, exceeding the number of the previous year 2,5 times and administrative penalty was applied in the amount of LVL 226,82 thous., exceeding the amount of penalties applied in 2012 thous. by 40%, and 26 transport vehicles having concealment places for hiding contraband goods were seized.

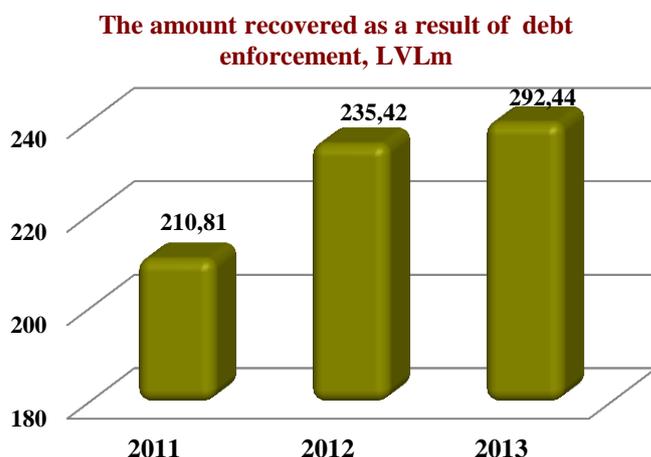
In cooperation with Latvian law enforcement bodies with the participation of the narcotics sniffer dog handlers of the SRS National Customs Board, 5,3 kilograms of various narcotic substances were seized over the 2013. The total amount of narcotic substances seized by customs officers in 2013 was 24,31 kg.

Within the reporting period the service dog handlers of the SRS National Customs Board searching the illicit tobacco goods detected 2 470 877 contraband cigarettes in 253 cases. In 2013 6 service dogs trained in searching tobacco goods were put to service of the Eastern Border of Latvia. During the customs control activities the customs officials with the assistance of the new service dogs detected 583 589 illicit cigarettes in 52 cases.

In 2013 during the customs control activities the service dog handlers of the SRS National Customs Board in twelve cases of failing to declare cash detected the concealed cash in the amount of EUR 210 921,78. Also in the same year in 33 cases undeclared cash was detected in the total amount of EUR 799 694,93.

In 358 cases the customs officers detected the total number of 18 990 units of counterfeit goods.

3.3. Tax debt recovery



In 2013 as a result of the significant improvement in the recovery process LVL 292,44m were collected into the state budget exceeding the respective amount achieved in 2012 by LVL 57,02 m.

The total areas of the payment into the budget administered by the SRS on 1 January 2014 was LVL 995,42, which is less than the respective figure on 1 January 2013 by 2,8% or by LVL 28,23m.

The proportion of recovered debts in the amount of really

collectable debts in 2013 was a monthly average 19,28 %, which exceeds the result of the previous year by 8,09 percentage points.

With the purpose of relieving taxpayers of the burden of tax debt arisen as a result of economic crisis, in accordance with the Law on the Tax Support Program (TSP) the taxpayers both legal and natural persons who had by 1st September 2011 accumulated a tax debt which had not been settled by 1 October 2012 – were provided with the opportunity to apply for the TSP starting from 1 October 2012. The program offered the cancellation of late payment penalty and 90% of the fine on the condition that the taxpayer would settle the principal debt and the related fines in the amount of 10%. In the period of time from 1 October 2012 the SRS had adopted a total of 3 015 decisions of applying the TSP in the amount of LVL 16, 74m, however 507 decisions of cancelling the application of the TSP were made in the total amount of debt LVL 5,96 m. Really settled debt under the Program amounted to LVL 3,94 m, late payment penalty and fines were cancelled in the amount of LVL 101m.

3.4. Pre-trial hearing of disputes and litigation.

Number of pre-court settlement of dispute decisions and concluded contracts

| Type of decision | 2011 | 2012 | 2013 |
|--|--------------|--------------|--------------|
| Tax dispute cases | 1 390 | 1 694 | 1 947 |
| Administrative violation cases | 547 | 750 | 588 |
| Late tax payment cases | 220 | 287 | 263 |
| Other dispute cases | 257 | 392 | 422 |
| Total | 2 414 | 3 123 | 3 220 |
| Contracts concluded about estimated payment after tax control | 61 | 64 | 104 |

In 2013 as a result of pre-court settlement of disputes decisions taken in comparison with 2012, the number increased by 97 decisions, or 3%. As a result of submission appeal and complaint handling number increase is connected with increase of tax dispute cases.

Cases in which judicial decisions have gained legal force the number and amount payable to the state budget

| Type of decision | 2011 | 2012 | 2013 |
|---|------------|------------|------------|
| Tax dispute cases | 274 | 411 | 457 |
| Administrative violation cases | 88 | 127 | 284 |
| Late tax payment cases | 57 | 68 | 41 |
| Other dispute cases | 13 | 17 | 66 |
| Total | 432 | 623 | 848 |
| The State budget paid amounts in cases where court decisions have gained legal force (million lats) | 12,96 | 31,01 | 40,49 |

3.5. Detection and prevention of crime in the area of state revenue and customs

In order to detect and prevent crime in the area of state revenue and customs as well as in the performance of the SRS officials and employees, the SRS carries out operation activities and pre-court investigation in criminal proceedings.

The detection and investigation of criminal activities in the area of state revenue and customs in 2013 is characterised by the following indicators:

| Indicator | 2013 | Change in comparison to 2012 |
|---|------------------|------------------------------|
| Criminal proceedings initiated (number), incl.: | 457 | -63 |
| - In tax area | 264 | |
| - In customs area | 193 | |
| Criminal proceedings sent to start prosecution (number) incl.: | 247 | -38 |
| - In tax area | 168 | |
| - In customs area | 79 | |
| Financial resources seized (thous. LVL) | 1 291,30 | -1 063,59 |
| Assets recognized as illegal proceeds and transferred to the state budgeted (thous. LVL) | 340,31 | -369,99 |
| In order to start criminal prosecution, sent criminal proceedings, in which damage to the state had been detected (thous. LVL) | 16 169,86 | +3 778,65 |
| Damage prevented to the state, due to the violations in customs area, for Customs Criminal Board initiated criminal proceedings and complied administrative violation protocols (thous. LVL) | 5 399,84 | -3 397,11 |

Initiated within criminal proceedings and administrative violation cases due to the SRS activity, seized goods:

| Indicator | 2013 | Changes in comparison to 2012 |
|---------------------------|------------|-------------------------------|
| Seized cigarettes, number | 50 792 739 | -38 021 537 |

| | | |
|--|------------|-------------|
| Seized alcohol, litres | 34 480 | +28 628 |
| Seized fuel, litres | 59 750 | -21 377 |
| Seized narcotic drugs and psychotropic substances, approved by examinations, grams | 122 815,72 | +118 399,24 |

Most significant criminal procedures initiated in 2013 in the area of state revenue

1) On November 2013, legal proceedings had been started against organised groups of interconnected companies' fictitious transaction chain. During the period from January 1, 2013 to August 31, 2013 the companies declared in Riga, Salaspils and Garkalnes regions, legalizing of proceeds of crime and evading taxes, caused damage to the state amounting for about 130 987,00 lats, and cheated the state budget funds of approximately 276 894,46 lats. In cooperation with Lithuanian and Estonian law enforcement authorities, in criminal proceedings at the same time in Latvia, Lithuania and Estonia, 16 raids had been conducted. During the searches SRS officials withdrew cash resources worth EUR 5965,00, and unregistered firearm, and ammunition which were arrested, as well as investment in gold and silver. In criminal proceedings 12 finance company accounts had been seized, valued in EUR 529 747,44. 9 persons were recognized as suspects.

2) On October 2013 activities of a criminal group had been stopped, which services one had been using of the largest cleaning and management industry services in Latvia. Over the past two years as a result of criminal activity, state budget had been damaged for at least for half a million lats. Criminal proceedings resulted in 30 searches, during which LVL 24 565 and EUR 37 539 had been seized, which were intended to be used as „envelope wages”. These assets were arrested. The groups' services were used by metalworking and construction companies. In criminal proceedings 7 persons are considered suspects.

3) In the end of April 2013 the activities of three interrelated criminal groups were stopped. Due to unjustified return of overpaid VAT fraud, tax evasion and money laundering, state budget suffered damage of approximately 6,2 million lats. In criminal proceedings 20 raids were conducted, including enterprise connected with the criminal proceeding, for which special permit (license) was issued for warehouse keeper with excise goods, fuel, biofuel and petroleum products at the oil depot. Six persons were recognized as suspects.

The most significant criminal proceedings in the field of state revenues sent, in order to start criminal prosecution

1) On May 28, 2013 in order to start criminal proceedings, a criminal process has been sent to of Organized Crime and Other Specialized Prosecutor's Office, in which the state suffered damage amounting to 15 525,73 lats. It was asked to start criminal prosecution against three organized groups with six actually working officials who worked in construction and trade sectors. On November 12, 2009 within criminal process money laundering had been stopped, to which the criminal group work was connected, which was hiding origin of the funds, which provided funds for the deals that did not exist, which were transferred trough Latvian, Czech Republic, the Kyrgyz Republic, Estonian member credit institutions. Within the criminal proceedings 23 searches were conducted involving National Police Anti-Terrorism Unit "Omega" as a result 6 persons were detained. During the searches cash amounting EUR 84 095 and LVL 11 020 was seized and during the court examination were found to be proceeds of crime and transferred to state budget.

During preliminary investigation as a result of obtained evidence allowed to start 4 more criminal proceedings, in which the state has suffered 143 471,41 lats of damage. Within

criminal process, actual working companies – the true beneficiaries had made VAT return corrections and deposited 210 000 lats into state budget. Currently criminal proceeding is pending.

2) On June 19, 2013 to the Organized Crime and Other Specialized Prosecutor's Offices a criminal process was sent in order to start criminal prosecution, where state suffered EUR 559 673, 17 damage. It was asked to initiate a prosecution against three persons. On March 2, 2011, during multiple searches, the SRS employees stopped the activities of organized criminal group, who carried out crimes in the field of state revenue.

Most significant criminal proceedings initiated in 2013 in the customs area

1) On June 11, 2013, criminal proceedings were initiated due to clearance of the goods - 6.88 million units of cigarettes "Премьер" with the Republic of Belarus excise duty stamps, smuggled into territory of Latvia from Belarus in a large quantity, which was brought in by a group of people by hiding them from customs control. On June 11, 2013 contraband cigarettes, in Republic of Latvia commercial company owned territory in Varaklani, were found the trailer truck underneath wooden shavings. 8 persons were detained. LVL 725,3 of budged damage were avoided.



Photo: SRS



Photo: SRS

2) On July 5, 2013, criminal proceedings were brought on the possible subject to the clearance of goods into customs territory of the Republic of Latvia, hiding them from customs control and not declaring them, which was done by a group of persons with a prior agreement. On July 28, 2013 SRS customs officials detained a group of individuals who were using rail cars with coal for cigarette hiding; this smuggling was organized and goods imported from the Russian Federation and the Republic of Belarus. The result of control measures was removal of 136 600 units of cigarettes and a car, 6 persons were detained as well. The damage to the state budget of more than 14,4 thousand lats was prevented.



Photo: SRS



Photo: SRS

3) On March 5, 2013, criminal proceedings were initiated on drug smuggling into Latvian customs on a large scale, which was established on March 4, 2013 at the post office. In criminal proceedings it was decided to carry out special investigations and criminal activity control. Operational and procedural activities were carried out and 1.41 kg of marijuana was seized, as well as 4 persons involved in the violation were detained.



Photo: SRS

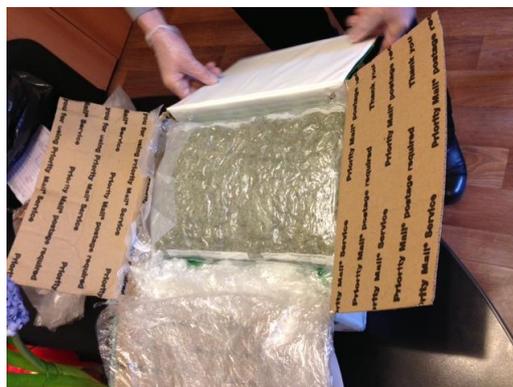


Photo: SRS

4) On April 23, 2013 criminal proceedings were initiated on drug smuggling on a large scale into Latvian customs. On April 22, 2013 the SRS customs officials during the customs control of the car on the ferry „Scottish Viking”, which was going to Sweden, found two sports bags with 11,88 kg of methamphetamine.



Photo: SRS



Photo: SRS



Photo: SRS

5) On August 6, 2013, criminal proceedings were initiated for 12.09 grams of cocaine smuggling into Latvian customs territory. On August 2, 2013 with flight from Frankfurt a drug courier – citizen of Lithuania- , who carried capsules with illegal drugs in his abdominal cavity into Latvian customs. SRS customs officers found that a group of persons, who engaged in drug trafficking from South America to Latvia.

6) On November 4, 2013 criminal proceedings were initiated on drug smuggling on large scale into Latvian border. On November 4, 2013 during number of operational activities in Riga, the SRS officials arrested a person who was taking a caravan trough Border Control Point “Grenctāle” with drugs, which were concealed in the car under the toilet’s room floor. During search it was found that the person had two 3,4-methylenedioxymethamphetamine pills and in his personal garage, hashish and marijuana were found, which were hidden in gas cylinders. Within criminal proceedings one person was detained. Overall seizures are 29.32 kg of hashish, 3 kg of marijuana and 0.20 grams of 3,4-methylenedioxymethamphetamine (MDMA).



Photo: SRS



Photo: SRS

Most significant criminal persecutions initiated in custom matters.

On May 22, 2013, Zemgales District Prosecution Office initiated criminal prosecution. It was asked to start criminal prosecution against two persons. On January 31, 2013, legal proceedings were initiated on basis of illegal smuggling of drugs into Latvian customs territory with passenger car registered in Estonia, which held two Estonian citizens. Following drugs were found: 0, 47 grams of cocaine, 0, 92 grams of marijuana and 104 514, 52 grams of hashish. On January 31, 2013 at Latvian/Lithuanian at the former Border Control Point “Grenstāle” carried out control measures and found secret compartments in different places in the car – wheel arches and sill, 250 different size packages of hashish were found.



Photo: SRS



Photo: SRS

3.6. Improvement of management and performance systems

In 2013 several activities were completed in order to improve management and performance systems.

Risk management

With the purpose to achieve maximal efficiency in reaching of the SRS goals and the set objectives and also, in order to, accomplish the tasks set out in the legislative acts, the SRS is implementing a comprehensive and integrated risk management. In addition to the SRS Risk Management Committee, which was set up in 2011, which aim is to monitor risk management process of the SRS and risk management in the customs area, in 2013 a Risk Management Committee in tax area and Risk Management Committee in IT and IT security area had been established. In 2013 for the first time a strategic risk register and certain measures to minimize and prevent risks had been developed.

The development of the risk management process in accordance with approved priorities of the SRS, which was accepted for 2014, intends risk management system development and its full merger with action planning process.

Personnel management

In order to ensure employees work performance evaluation in state information system “Electronic Journal of Information Systems Evaluation” (EJISE), where the SRS positions are split in groups and approved evaluation of competences for position groups, on June 25, 2013 SRS issued internal rules No. 37 „Employees work performance appraisal approval” and developed a handbook on performance planning and evaluation in EJISE.

Introducing employee work performance planning and evaluations EJISE the SRS had met the Cabinet of Ministers Regulation No. 494 issued on July 10, 2012 „Regulations on the direct administration of state employee work performance evaluation” requirements, as well has improved evaluation process:

- Each employee has specific goals based on the objectives of the establishment, and the objective compilation is being valued thus enhancing employees personal contribution to overall institutions development;
- Ensure equal assessment principle of employees remuneration based on performance indicators of quality;
- Evaluation is carried out electronically, thus reducing employees and managers time and resources;
- Manager has an easy and convenient access to the subordinate employee evaluation, which allows efficient and quick decision making in relation to the employee’s nomination for promotion.

Information systems

The State Revenue Service maintains 48 information systems, including 16 state information systems, 7 support systems, 10 technology support information systems, 7 other SRS designed or modified information systems etc. .

The State Revenue Service in 2013 in connection with the introduction of the euro has successfully conducted upgrade of 14 information systems in order to ensure their compliance with euro. In 2013 SRS information system modernization had been started, planning to introduce an information system integrator, modernise the system, and introduce tax administration on the accrual basis.

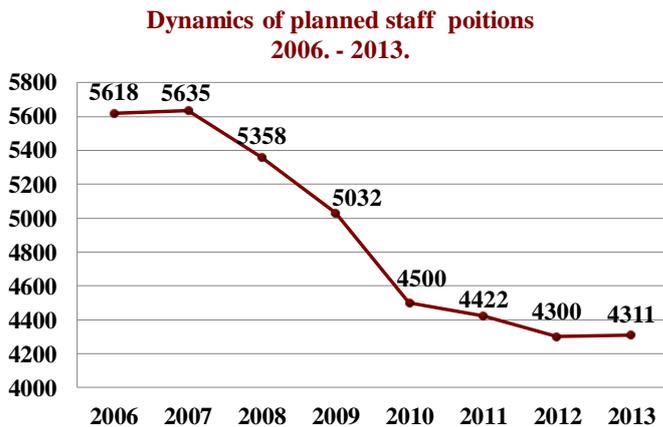
Combating of corruption

On November 1, 2013 the SRS updated corruption risk register had been approved, which is maintained since 2006.

On June 5, 2012 the SRS corruption prevention plan for 2012 to 2013 had been approved. The goals covered by the plan shall be prepared and submitted to the SRS management for annual reports.

In 2014 it is intended to integrate the SRS corruption risk register into the SRS risk register.

4. Personnel



By the end of 2013 total number of staff positions of civil servants and employees of the SRS was 4 312 and the average number of filled staff positions was 4 102. The proportion of jobs taken by the civil servants against the total number of staff positions was 86% and 14% was filled by other employees.

Of the total number of filled staff positions 94% personnel has higher education degree.

In 2013 the total number of staff hired was 311 civil servants and employees. 284 civil servants and employees left the service. The staff turnover rate was 6,9%.

The average age of the SRS staff was 43 years. In breakdown by the age groups 14% of the staff were in the age up to 30, 29% in the age between 31 and 40, 27% in between the age 41 and 50, 13% in the age between 51 and 55, and 17% staff were in the age group over 56 years.

Of the total number of filled jobs 75% were held by women and 25% are men. In 2013 the length of service was less than a year for 6% of the total number of staff, 1-2 years for 3%, 2-5 years for 3%, 5-10 years for 30%, 10-15 years for 20% and more than 15 years for 38%.

In 2013, 342 SRS staff members were awarded the SRS distinguished service diplomas, the awards of the Ministry of Finance, the Customs mark of distinction and other honours. Due to the 20th anniversary of the founding of the SRS, 156 employees received high work quality rewards and 185 employees received gratitude.

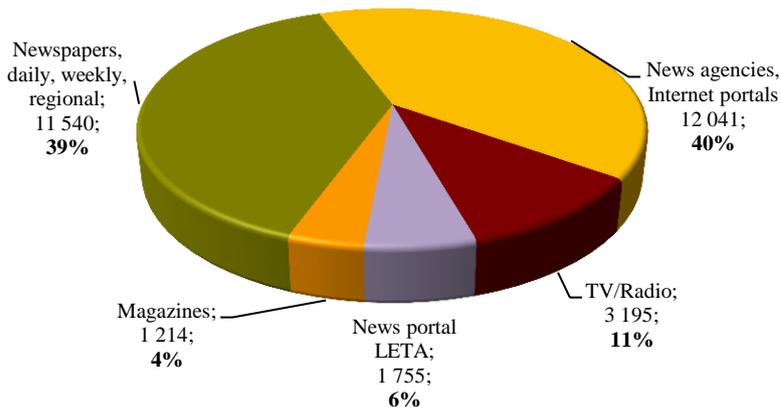
Disciplinary punishments in 2013 were applied to 68 civil servants and employees, to 35 staff members a reprimand was applied, salary reduced to 15 and 9 were released from service.

In 2013 the 7 378 staff members of the SRS took part in 516 various training events, which is less than in 2012 by 4.5%. The average time spent in training was 9.3 hours. Main training themes were: customs issues – 34%, tax issues – 21%, labour protection issues – 21%, personnel management issues – 9%.

5. Public relations

The SRS regularly informs the society about various outstanding issues, performance results, and about matters of interest to population in the media by sending out press releases, organising press conferences and giving face-to-face interviews, answering questions of journalists. In the public communication attention is paid to availability, truthfulness, objectivity and actuality of the information which must be at the same time simple, understandable and consistent.

Publications related to the SRS in mass media



The total number of publications in mass media concerning the issues of the SRS in 2013 was 29 745 – published daily, weekly and regional newspapers, and magazines; broadcasts and stories over TV and radio; information provided to news agencies and Internet portals. In comparison with 2012, the number of publications has increased by 4%.

Expanding the amount of available communication channels, in addition to *Youtube.com* and *Flickr.com* from November 26, 2013 an SRS account has been made on *Twitter* and from January 28, 2014 on *Facebook*.

Modernising the communication with taxpayer, two video instructions had been developed for declaration filling and introduction of euro. Given that the SRS website is the main taxpayer source of information on tax and customs matters, it is essential to fascinate the taxpayer the necessary information search and acquisition, as well as simplify the obligations to state, thus in 2013 work on new website design has begun. In the new SRS website it is planned to structure the information according to the target audiences as well as to prepare it according to the target audience knowledge level.



Participation in informative and educational events

In 2013 the SRS took part in the following informative educational events:

- March 18-24, the Latvian Information and Communications Technology Association and the Environmental Protection and Regional Development Ministry of E-skills week;
- On May 25, the State Police and its partners organized festival for families with children „Adventurous Summer 2013”, where the SRS staff taught parents and their children about safe travel, the customs mobile unit equipment and transport, as well as demonstrated how useful and obedient are our four-legged little helpers – drug search service dogs;



Photo : SRS



Safety festival "Adventurous Summer 2013". Photo : SRS

- The Ministry of Finance organized four regional Euroday events, in order to respond to societal issues related to the changes in co-operation with SRS with introduction of the euro in Latvia (September 20 in Kurzeme, September 27 in Latgale, October 4 in Zemgale, October 11 in Vidzeme);
- "Latvian Small and Medium Enterprises Forum" society initiative „Support small business” organized five seminars for entrepreneurs, where SRS tax specialists in "Infomarket" provided practical information for Latvian micro and small enterprises on taxation issues, as well as introduced the SRS EDS as effective tool to communicate with SRS (September 26 in Daugavpils, October 3 in Rezekne, October 10 in Liepaja, October 24 in Valmiera, October 30 in Jelgava). In addition, on November 16 micro and small business representatives had an opportunity to visit five SRS client service centres: Preili, Tukums, Cesis and Riga Latgales suburb, in order to receive information on the taxpayers' rights and obligations, gain practical information on taxation issues and the functions of EDS, as well as its benefits and possibilities;
- On September 27, within the State Administration Open Days, SRS invited students from all Latvian schools to apply for tours in various departments throughout the Latvian State Revenue Service. More than 270 students attended SRS Open Day;



Open Day at Tukums CSC. Photo : SRS



Open Day at Ventspils CCP Photo: SRS

- In October 31, took place the SRS and RTU SESMI 20th anniversary International Scientific and Practical Conference on "Tax and Customs Administration Sustainable Development within the EU." During the conference the SRS senior management and the high level foreign organizations and an academicians presented their presentations;
- On November 28 publish house "Dienas Bizness" held a ceremony "TOP 500 award ceremony", where



Photo : SRS

the Latvian Ministry of Finance and the State Revenue Service paid tribute to the 2012 ten largest taxpayers;

- On December 5, SRS implemented project “Simplified Annual Income Declaration in Electronic Declaration System”, which was applied to the Latvian Information and Communication Technology prize “Platinum Mouse 2013”, and became newspapers “Dienas Bizness” and webpage www.db.lv reader vote winner in the nomination of “E-Services”;
- On December 12, Cultural Information Systems Centre and VARAM organized training seminar “Electronic environment and E-Services” for Latvian public library librarians on electronic environment and e-services.

Cooperation with non- government sector

In cooperation with professional organisations, branch associations and non-government bodies the following activities related to tax administration issues were organised in tax area:

- with the Latvian Chamber of Trade and Industry and Latvian Confederation of Employers on tax issues;
- with the representatives of the association ” Latvian Authorised Automobile Dealers Association” and cooperation ” Automotive Association” on the taxation of the luxury automobiles;
- with the representatives of the Latvian Association of Accounting Outsourcing on mutual co-operation;
- with the Association of Commercial Banks of Latvia about the passing information to the credit institutions related with the money laundering and terrorist financing prevention amendments to the law;
- with the representatives of the Tax Consultant Association on the proposals for amendments to the legislation regarding VAT in relation to the third countries person registration to the SRS value added tax register;
- with the representatives of the Foreign Investors’ Council about the current events of the insolvency and amendments to the Insolvency Law;
- with the representatives of the Health Inspectorate, the National Health Service and the Latvian Association of Family Doctors about the information held by public authorities on medical practice income;
- with the representatives of the Food and Veterinary Service on the issues concerning the accompanying documents;
- with the Consumer Rights Protection Centre on the electronic cash registers and the SRS inspections of retail outlets and detection of the price omitting in lats and euros;
- with the cash register, cash system, specialised equipment or device maintenance service providers about the new requirements for cash registers and systems;
- with the representatives of the Security Sector Entrepreneurs Association about the mutual co-operation;
- with the representatives of the State Stock Company ”Latvia’s State Forests” (Latvijas valsts meži) about a joint cooperation possibilities on tax payment control;
- with the representatives of the Latvian Association of Journalists about the improved standard of the royalties taxation.

In the area of excise duties meetings were organised on the issues to the monitoring of excise goods, with the representatives of Latvian Fuel Traders Association, the Fuel and Producers Union, the National Association of Tobacco Goods Manufacturers, the Latvian

Association of Distributors of Alcoholic Beverages, the Latvian Traders Association, the Latvian Confederation of Employers.

In the customs area meetings of the Consulting Council on Customs and Business on the issues with the participation of the representatives of the Latvian National Association of Forwarders and Logistics, Latvian Logistic Association, society of Latvian Truckers "Latvijas auto", Latvian Transit Business Association and company "Latvian Railway"(VAS "Latvijas dzelzceļš") on the application of the customs legislation, implementation of electronic customs systems and operation, customs checkpoints work organization and other with customs related issues.

6. SRS performance and development strategy results for 2011-2013

The following effective performance indicators were set in the SRS performance and development strategy 2011- 2013:

- 1) the amount of collected revenues compared with the plan;
- 2) the amount of collected revenues compared with the previous year;
- 3) costs of one collected lat;
- 4) the level of satisfaction of SRS clients;
- 5) the level of staff satisfaction.

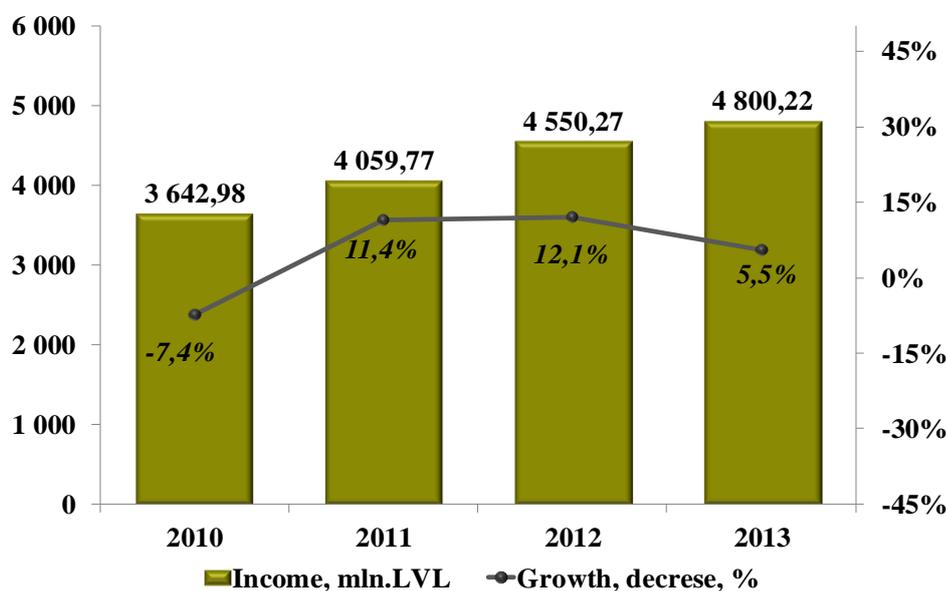
During the reporting period the SRS administered the state budget revenue plan performance and it has exceeded all three years: in 2011 by 3,4%, in 2012 by 2,3% and in 2013 by 4,5%.

The budget revenues administered by the SRS in 2011- 2013:

| Year | Revenue plan for year (m LVL) | Revenue collected in fact (m LVL) | Revenue plan implementation (%) |
|------|-------------------------------|-----------------------------------|---------------------------------|
| 2011 | 3 925,77 | 4 059,77 | 103,4 |
| 2012 | 4 447,90 | 4 550,27 | 102,3 |
| 2013 | 4 594,36 | 4 799,38 | 104,5 |

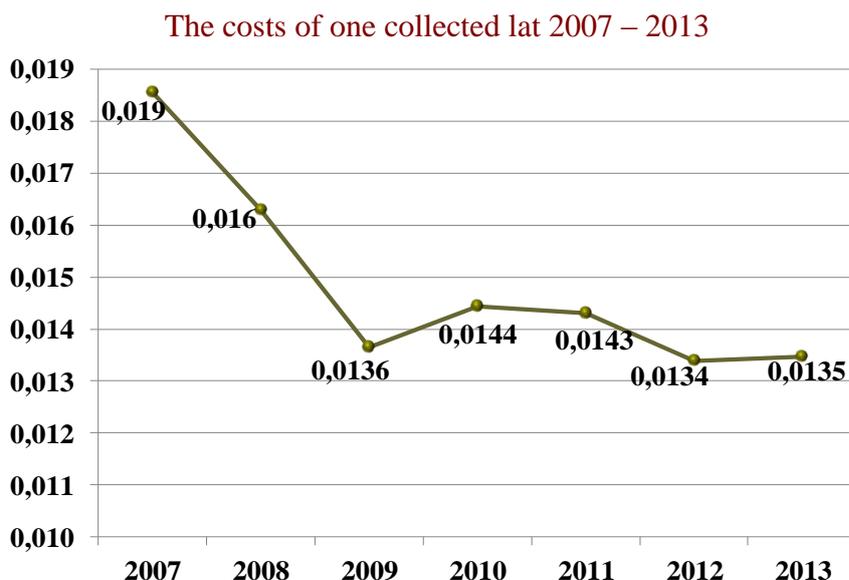
The tax and non-tax revenues into the state budget administered by the SRS in 2013 were LVL 4 800,22 m, exceeding the revenues collected in 2012 by LVL 249,94 m, or by 5,5%.

Revenues to the state budget administered by the SRS over the period of time 2010- 2013



During the period of time 2007- 2013 a definite tendency of decreasing concerning the effective indicator of the SRS performance – the cost of one collected LVL– was observed, however in 2013 is recorded an insignificant increase in the indicator.

In 2013 the cost of the collection of one LVL was LVL 0, 0135, which is by 0,7% more than in 2012 and by 29% less than in 2007.



In 2012 an agreement was concluded between the SRS and the marketing and social research agency Ltd “Latvijas fakti” under which a study of taxpayer and customs client, as well as the SRS staff satisfaction was made in October and November 2012.

In accordance with the results of the study the total level of satisfaction with the services provided by the SRS among the taxpayers and customs clients in the scale of 10 points was:

- among taxpayers – **8,41** points;
- among customs clients – **8,44** points.

These indicators can be regarded as positive evaluation and are a proof of a rather high service quality.

Taking into account that the marketing and social research agency Ltd “Latvijas fakti” pointed out that in this scale of study, if there are no drastic or significant changes in the range of services, that there is no use of conducting these kind of study more than every two or three years, repeated study in 2013 was not conducted.

According to the results of the study made in 2012 by the marketing and social research agency Ltd “Latvijas fakti, the SRS employees in general are satisfied with the personnel, working environment and information flow:

- **16,7%** of interviewed employees are completely satisfied with the work in the SRS, which is by 9,9 percentage points less than in 2011;
- **64,2%** of staff have indicated that they are rather satisfied with the work in the SRS, which is by 4,9 percentage points more than in 2011;
- **19,1%** of employees have indicated in their inquiry forms that they are rather dissatisfied or not satisfied with the work in the SRS, which is by 4,9 percentage points more than in 2011.

Analysing the results of the SRS performance and development strategy 2001- 2013, it can be concluded of the successful implementation of the strategy:

- during the reporting period the SRS administered the state budget revenue plan performance and it has exceeded all three years: in 2011 by 3,4%, in 2012 by 2,3% and in 2013 by 4,5%;

- although the collected revenue growth rate in 2013 has decreased, however during the reporting period yearly revenue comparing to the last year has increased, contrary to the 2010, when the collected revenue amount comparing to the last year was by 7,4 % less;

- in accordance with the results of the study, which was conducted in 2012, the total level of satisfaction with the services provided by the SRS among the taxpayers and customs clients in the scale of 10 points, was among taxpayers – 8,41 points and among customs clients – 8,44 points, these indicators can be regarded as positive evaluation and are a proof of a rather high service quality;

- the SRS staff level of satisfaction – 80,9% are completely satisfied and rather satisfied – in general it can be valued positively, however with opportunities to improve staff satisfaction in the future.

During the reporting period, a positive increase in a number of provided services, show a possibility for success in respective provided services:

- the increase of answered calls to the central informative phone – in 2011 by 64 %, in 2012 by 80% and in 2013 by 83% ;

- according to the yearly research *Doing Business* data by the World Bank, time that taxpayer spent to fill the tax returns and tax payment has decreased – from 293 hours in 2011 to 264 hours in 2013, which is for 26 hours less;

- there is a significant increase in the number of received gratitude (proportion) against the number of substantiated complaints – in 2011 – 0,73, in 2012 – 1,91 and 2013 – 3,76;

- an improvement has been achieved in discipline reports and declarations for submission to regulatory timelines from 86% in 2011 to 87% in 2013;

- about the positive changes in the behaviour of taxpayers, when fulfilling the tax obligations, indicate the amount of tax stability, that the during control or till the control taxpayers themselves specify in declarations – in 2011 it was LVL 4,3 m , in 2012 it was LVL 5,2 m and in 2013 it was LVL 4,1 m;

- in the result of the recovery job, has increased the share of recovered debts from the actual claims to be recovered in 2011 – 7,03%, in 2012 – 11,2%, in 2013 – 19,28%.

7. Priorities for 2014

Actions, which started in 2013 will be continued

Improving the Electronic Declaration System:

- with the 01.06.2014 will be improved EDS usability – EDS visual image will be improved, a new home page will be created, where the user will be able to group key information, visually a natural persons will be separated from the legal persons, as well there will be an automatic registration and removal of officials of the law, if the person has the sole right to represent the taxpayer;
- with the 01.06.2014. only in the electronic document form will be introduced an salary tax book, which will be available in EDS and it will be possible to use it by the mobile application;
- with the 01.06.2014 declining the signature file, won't be necessary to conclude an agreement with the SRS on the use of EDS. Registering in EDS will be possible through www.latvija.lv using – several Latvian credit institutions online banking authentication means, issued eID smart card by The Office of Citizenship and Migration Affairs, issued electronic signature smart card (e- signature) by the State Joint-Stock Company “ Latvia Radio and Television Centre” or with the system user name and password which is issued by the SRS;
- using the EDS system, there will be available the plan for the submission of the declaration, and you will receive a notification of the available information by the SRS on overdue declarations;
- automatic warning system on the tax debts will be updated with the calendar, where it will be possible to calculate the amount debt sum on a certain date;
- possibility to prepare the declaration before the term of submission, notifying the time when it should be submitted;
- after the review and declaration preparation and submission the SRS will create the tax invoice;
- will be considered the possibility to provide the information for entrepreneurs on the last computerized risk analysis results and sent the notice of the inclusion of risky taxpayers group, as well as to inform the employers, if their employees average wage will be significantly lower than the average wage in the sector.

Improving customs area, it's planned to continue the development of the Electronic customs data processing system, which will simplify and improve the customs clearance process, reducing the time which is necessary for customs formalities and costs for both business and public authorities:

- the possibility for electronically submitting the import customs declaration will be ensured, including the customs value declaration data, as well as electronic submission of corrections for import declarations to the release of the goods and after the release of the goods;
- will be given the opportunity to re-use in customs formalities already electronically submitted data;
- it will be possible to make customs payments online using the site www.latvija.lv; to speed up the release of goods for free circulation;
- developing the temporary storage functionality, the opportunity will be provided for merchants to electronically submit data for the temporary storage of goods till the execution of the data, on the basis of existing data in the system, as well as making inventory of the declared goods in the temporary storage, thereby significantly reducing the time which is required for temporary storage and control.

Priorities and Main Tasks for 2014

The SRS Strategy for 2014–2016 approved in April 23, 2014, in which strategic objectives will be implemented in the following tasks:

1) objective “Implement tax compliance behaviour appropriate action in revenue collection to the state budget and the effective protection of the EU financial interests”:

- review, declarations and administrative procedures revision and simplification and improvement of the electronic declaration system;
- establishment of a unified call centre for the SRS administrative building complex (informative phone 1898 and Tax and Customs helpline 80009070);
- participation in pilot project by the Ministry of Environmental Protection and Regional Development, to create the customer service centres of the public service in the state;
- introduction to the process of the remote release of the goods, by applying to the goods import procedures;
- the authorized TIR sender full implementation of the Concept;
- introduction to a unified green corridor for a natural persons, at the border crossing point at Grebņeva-Ubiļinka;
- active communication and public information on social networks: *Twitter* and *Facebook*;
- organizing an informative campaigns to inform the society about the use of tax and tax payment promotion, which is aimed at taxpayers’ attitude and behaviour change, in cooperation with the State Chancellery, Ministry of Finance, Ministry of Welfare, the State Labour Inspectorate, and the State Social Insurance Agency;
- creation of the new SRS webpage;
- implementation of the measures of the targeted controlling and economic restrictions;
- improvement of the debt collection process in order to achieve its efficiency;
- promoting the unified administrative practise with the aim to achieve uniform application of the law;
- the tax wedge calculations of the value added tax, taxes on personal income and excise duty.

2) objective “Through effective customs control measures ensure the protection of the society safety and security”:

- development of the electronic processing system;
- customs control measures to illicit the trafficking against the excise goods, narcotics and psychotropic substances, counterfeiting and dangerous goods for consumers, and by the safety and security controlled goods and cash movements;
- co-operation with Baltic customs services, introducing the unified customs control methods and exchanging the information on the subordinates to customs control in high- risk subjects and objects;
- establishing the Baltic cargo scanner cross- linking, therefore creating the unified database for the scanned image processing and analysis.

3) objective “Ensure the fight against crime in state revenue and customs matters by reducing tax fraud and smuggling”:

- implementation of a new and more effective methods to disclose and prevent crimes ;
- the fight against crime in state revenue and customs matters relating to the organized crime and/or corruption, as result to this crimes the state budget suffers major losses;

- ensuring the coordination of the State law enforcement agencies plan, to activate the fight against the illegal movement of excise goods in Latvian;
- active involvement in the development and implementation of the plan by the National Criminal Intelligence and organized crime;
- development of the uniform excise goods illicit market share and the method of the calculating the amount, in co-operation with representatives of the other law enforcement agencies and industry associations;
- ensuring participation against the serious cross- border crimes and organized crime in the European Union policy cycle from 2014– 2017;
- improvement of the internal security system, in order to reduce the corruption risks by the SRS employees and officials.

4) objective “ Raise the SRS resource efficiency and effectiveness”:

- ensuring the continuous work, during the transition to the new SRS administrative building complex;
- the SRS training system development to ensure the priority needs of the underlying function performance to increase the efficiency of it;
- to work out the career development and motivating remuneration system, based on the value of the position of the SRS;
- development of the financial resources for the optimal planning and rational use system;
- development of the uniform visual identity and implementation of the SRS client service centres, customs checkpoints and electronic communication;
- development of the information systems modernization project, to minimize the amount of manual work and develop the customer self-service principle;
- update of the computerized taxpayer risk assessment system;
- improvement of the infrastructure on the eastern border, providing two cargo control X- ray system, 5 car platform weight and axle weight for 6 cars, as well as the field for 4 fuel quantity detection devices;
- development of the SRS risk management system to ensure its systematic implementation in all areas of activity;
- cooperation with local governments, businesses and media representatives, as well as regular visits to the SRS customer service centres in the Latvian regions.

In 2014 it's scheduled to carry out the SRS client satisfaction survey with the aim of identifying trends and changes to the taxpayer and the quality of customs administrations customer service, as well as to ascertain public attitudes towards the SRS and changes in its reputation. At the same time according to the taxpayers and customs clients conduct obligations to the State, the SRS will control the strict measures to ensure fair competition in business and protection of the society.

We have set the SRS customer service motto, in order to provide customer service and customer satisfaction with the services provided by the SRS, implementing the uniform services to ensure equal and fair treatment of any SRS client:

“Your duty is to be honest tax payers, ours to provide professional services!”