



# **Annual Report 2012 of the State Revenue Service**

**APPROVED**  
on 25 April  
2013

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## Dear reader of this report!

I am pleased to present hereby the SRS Annual Report of 2013 informing you of the performance results in 2012 and about the priorities for 2013.

Having evaluated the priorities, tasks and results as set out by the Strategy of SRS Performance and Development 2011-2013, we must admit that the performance results of 2012 look positive. The collections of taxes administered by the SRS have considerably – by 12,1% - increased in comparison with 2011 achieving the fulfilment of the tax revenue collection plan in the amount of 102,3%. As a result of further optimisation of the service operational processes with the purpose of maximal use of resources, the cost of one collected *lat* (Ls) has been decreased which is a positive indicator of the service performance efficiency. The cost of one collected *lat* was 0,014 lats, but in 2012 – 0,013 lats.



Foto: LETA

To the SRS the year 2012 has also been in a sense “a year of challenge” as we had to implement in a relatively short period of time three significant activities without attracting additional resources: declaration of natural person property status, taxpayer support activity and the enhanced cooperation program.

The successful implementation of the administration of natural person property status is proved by the fact that instead of planned 70 000 declarations 132 033 natural person property status declarations were filed in the SRS.

By 31 December 2012 the total of 2774 taxpayers applied for the taxpayer support activity. If all taxpayers will in accordance with taxpayer support activity application decisions pay the basic amount of the tax debt, the total of cancelled late payment penalties and fines will amount to almost one million *lats*.

The third important activity initiated in 2012 is the enhanced cooperation program or the so called “White List”, the application to which was opened on 7 July 2012. By 1 January 2013, 36 taxpayers were accepted to the enhanced cooperation program qualifying to the privileges set out by the specific law.

To my mind, one of the most essential indicators in performance evaluation of any institution or company is the judgement of customers regarding the performance of the institution or company and the quality of services rendered to them. We are greatly satisfied with the high appreciation of our services expressed by our clients in the client satisfaction study made by the marketing and social research agency “Latvijas fakti” in the end of 2012 recognising the high quality of our services provided by professional and competent specialists. In all positions covered by the study the average indicators exceeded eight points in the decimal scale which according to the agency SIA “Latvijas fakti” are excellent indicators of client satisfaction. The positive evaluation of our performance made by our customers promotes optimism, proves that the results of our efforts are appreciated and let us expect better results in 2013 which is the year of 20<sup>th</sup> Anniversary of the SRS.

In 2013 we will continue to implement the tasks set out by the Strategy of SRS Performance and Development 2011-2013, in accordance with the priorities which on the one hand are focused on the prevention of tax avoidance and evasion and combatting of contraband, but on the other hand, are directed at supporting of honest taxpayers by further simplification of tax compliance and improvement of the services provided by the SRS.

Special attention will be paid in 2013 to the improvement of Electronic Declaration System by offering to taxpayers new and more convenient electronic services which will facilitate tax compliance. We will also closely monitor the quality of services rendered to our clients improving it to ensure maximally better service.

In the year of our 20<sup>th</sup> anniversary we are also planning several activities devoted to this event: to organize an international scientific and practical conference “Sustainable Development of Tax and Customs Administrations within the Framework of EU”, to congratulate honest taxpayers, to thank cooperation partners and best employees of the service.

On behalf of SRS staff and myself I would like to convey our gratitude to all honest taxpayers who ensure and promote the development of our country by their energy, knowledge, talent and daring to implement their ideas.

A handwritten signature in black ink, consisting of a large, sweeping curve that starts from the left, goes up and over, and then curves down to the right.

**Nelija Jezdakova**  
Director General

**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 administration 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;

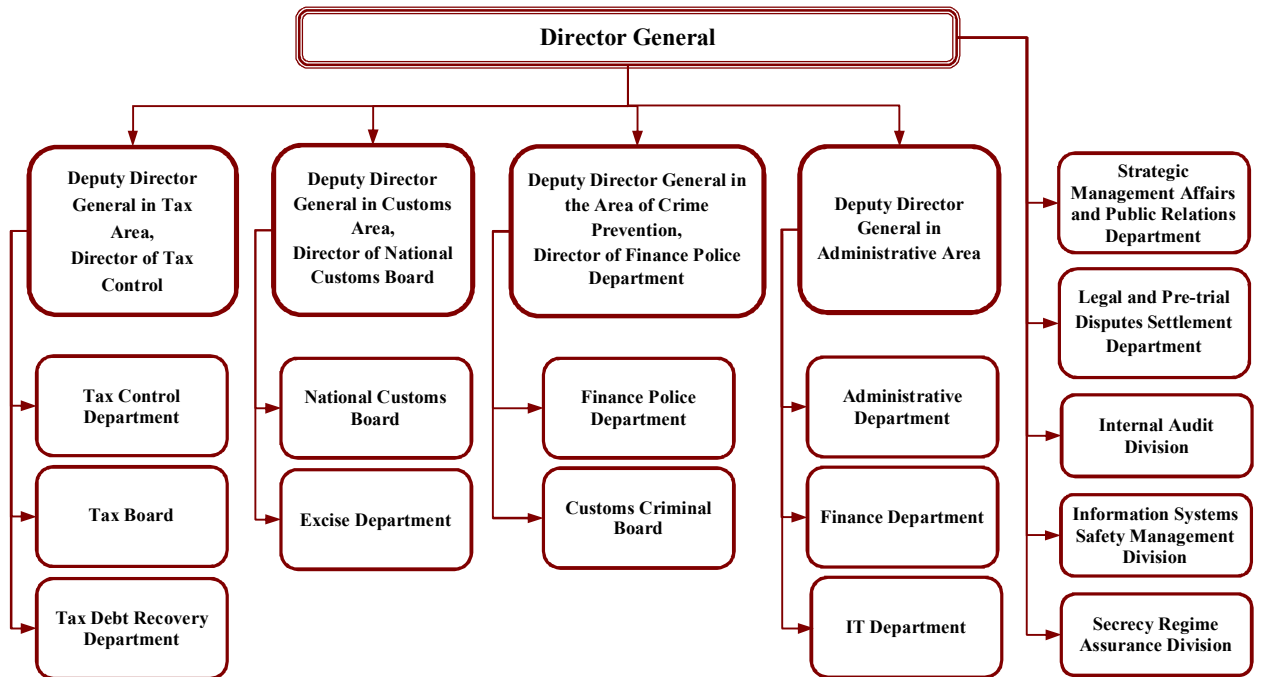
5) in accordance with the procedures specified in laws and Cabinet regulations to register and enumerate taxpayers and to control the conformity of registration documents with the requirements of the law and actual circumstances;

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.

## Organizational Structure of the SRS



In accordance with SRS Regulations approved on 6 September 2012 four Deputy Directors General are directly subordinated to Director General of the SRS: 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 National Customs Board, Deputy Director General in the Area of Crime Prevention, serving also as Director of Finance Police Department, and Deputy Director General in Administrative Area.

## **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 level 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 2012**

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 shadow economy and the promotion of fair competition, the following priorities of SRS performance in 2012 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 organised crime and corruption in the area of state revenues;
- conducting customs control activities in the priority areas - restriction of excise goods smuggling, combating smuggling of narcotic and psychotropic substances, combating organised crime groups.

The SRS in 2012 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 2011-2013 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;
- the Action Plan 2010-2013 for combating shadow economy and ensuring fair competition;
- Plan of the activities aimed at the improvement of business environment in 2013 etc.

## 2. Financial Resources and their use

### 2.1. State budget funding and its use

In accordance with law "On State Budget 2012" 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 2012 and its use in lats

No.	Financial Indicators	2011 (actual implementation)	2012	
			Target figure	Actual implementation
<b>1.</b>	<b>Financial resources covering expenses (total)</b>	<b>60 732 225</b>	<b>62 421 088</b>	<b>63 112 722</b>
1.1.	Subsidies	59 483 672	61 917 651	61 917 651
1.2.	Paid services and other own revenues	23 045	93 156	32 961
1.3.	Foreign financial assistance	1 225 508	410 281	1 162 110
<b>2.</b>	<b>Expenditures (total)</b>	<b>59 301 394</b>	<b>63 687 078</b>	<b>62 241 552</b>
2.1.	Maintenance expenditures (total)	54 497 697	58 185 793	57 948 877
2.1.1.	Current expenses	54 497 697	58 118 008	57 881 092
2.1.2.	Transfers of maintenance expenses	0	67 785	67 785
2.2.	Capital investment expenses	4 803 697	5 501 285	4 292 675

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

The state budgetary resources allocated to the SRS in 2012 were spent in the amount of LVL **62 242 thous.** or by 97,7 % 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 2012 were used in the amount of LVL 59 738 thous. or by 99,9 % of the planned financing which increases the figure of 2011 by LVL 2 296,3 thous. or by 4,0 % .

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)	4 447,90	4 550,27	102,38	2,3
VAT (m LVL)	1 070,39	1 116,60	46,21	4,3
Excise duty (m LVL)	500,65	494,66	-5,99	-1,2
CIT (m LVL)	246,20	243,87	-2,33	-0,9
PIT (m LVL)	853,13	871,42	18,29	2,1
MSSIC (m LVL)	1 386,73	1 399,36	12,63	0,9
Other tax and non-tax payments	390,80	424,37	33,56	8,6

- Increase of the state budget revenues collected by the SRS can be explained by the growth of Latvian economy and also by the increase of the efficiency of the tax administration activities achieved by the SRS. The overflow of the revenue plan in 2012 was achieved mostly due to the increased collections of VAT, PIT, MSSC and other non-tax revenues.;

- Failure to meet the target figures for excise duty collections in 2012 was due mostly by the excise duty payment term extensions requested by the taxpayers and approved by the SRS. As a whole, the excise duty revenues in 2012 should be regarded as positive due to the growth of revenues by LVL 13,14m in comparison with 2011.

- Failure to fulfil the revenue plan for the collections of CIT in 2012 was greatly influenced by the decrease of contributions in the amount of LVL 14,4m or by 33,6% made by the three of the largest CIT payers of 2011. Two of them in 2012 had overpaid the tax in 2011.

2) The state budgetary resources allocated for the implementation of the program 37.00.00 “Ensuring the Documentation for Legal Movement of Goods” in 2012 were spent in the amount of LVL 305 thous. or 6,9 % of the planned budgeting, exceeding the amount of 2011 by LVL 58,3 thous. or 4,7 %. Taking into the consideration the decrease in the demand of excise duty stamps in 2012, the unused allocation amounted to LVL 42 thous.

<b>Effective indicator</b>	<b>Plan of effective indicator in the reporting period</b>	<b>Execution of the effective indicator in the reporting period</b>	<b>Difference between plan and execution in the reporting period (in absolute figures)</b>	<b>Difference between plan and execution in the reporting period (percentage)</b>
Excise duty stamps issued for 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

3) The state budgetary resources allocated under the subprogram 62.06.00 “Local Government and Open Tenders Financed by the ERDF (2007-2013)” to the project “Implementation of Excise Goods Movement and Monitoring System” were in 2012 spent at the amount of LVL 203 thous. or 99,1%. The total cost of the project was reduced by the remaining amount of unused financing in the amount of LVL 1,8 thous. On 15 November 2012 the project “Implementation of Excise Goods Movement and Monitoring System” was completed;

4) 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)” were spent during 2012 in the amount of LVL 618 thous. or 98,7 %. The implementation of the project is continued in 2013;

5) 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 190 or 13,5 % of the planned budgeting were used in 2012.

Within the framework of foreign financial assistance resources allocated under the “Japan Tobacco International” project in 2012 specific computer, communications and other office equipment was acquired for operational needs, for the maintenance of transport vehicles purchased in the previous reporting period, and also a transfer in the amount of LVL 67,8 thous. was made to the State Border Guard Service in order to finance the combating cigarette smuggling. 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 2013.

6) Under the subprogram 73.07.00 “Projects Financed by the European Community for the Improvement of Internal Market of Tax and Customs System” LVL 188 thous. or 69,6 % of the planned budgeting were used in 2012. Under the subprogram the activities of enhancing the qualification and acquiring international experience of the SRS officials within the EU programs “Fiscalis 2013” and “Customs 2013” are implemented.

Over the 2012 under the budget of the program “Fiscalis 2013” 116 SRS officials participated at 68 events hosted by foreign tax administrations concerning tax administration issues. In turn, the SRS hosted six working visits of 32 tax officials from foreign tax administrations. Under the program “Customs 2013” 161 SRS customs officials participated in 114 activities on customs issues, and hosted seven working visits of 21 participants from customs administrations of other EU countries. In May 2012 within the program “Customs 2013” an information workshop was organised in Riga on the narcotic substance precursors with the participation of 80 specialists from EU Member States, EC, OLAF, Europol, International Narcotic Control Board missions in Moldova and Ukraine and also the representatives from China and EU cross-border cooperation partners.

7) The co-financing allocated under the program 73.08.00 “The Projects Implemented by the SRS in the Area of Protecting Fiscal Interests” in the amount of LVL 34,7 thous. was not used in 2012. The financing was intended to implement the Agreement prepared by Estonian Customs Administration on the linking the System of automatic identification of transport vehicles and containers between the Baltic states under the project jointly presented and approved by the EC (within the program *Hercules II*) in 2011. The conclusion of the four party agreement between Estonia, Lithuania, Latvia and the winner of the tender did not take place on the date which was previously agreed, so there were no expenses in the reporting period. The implementation of the project “Support for the Purchase of Technical Equipment” will be continued in 2013.

### 3. SRS performance results

#### 3.1. Effective Strategic (policy) Indicators

The following effective performance indicators were set in the SRS Business and Development Strategy 2011-2013:

- the amount of collected revenue compared with the plan;
- the amount of collected revenue compared with the previous year;
- the level of satisfaction of SRS clients;
- costs of one collected lat;
- the level of staff satisfaction.

The revenues into the state budget administered by the SRS in 2012 were LVL 4 550,27m, exceeding the planned tax revenues by **LVL 102,38m, or 2,3 %**.

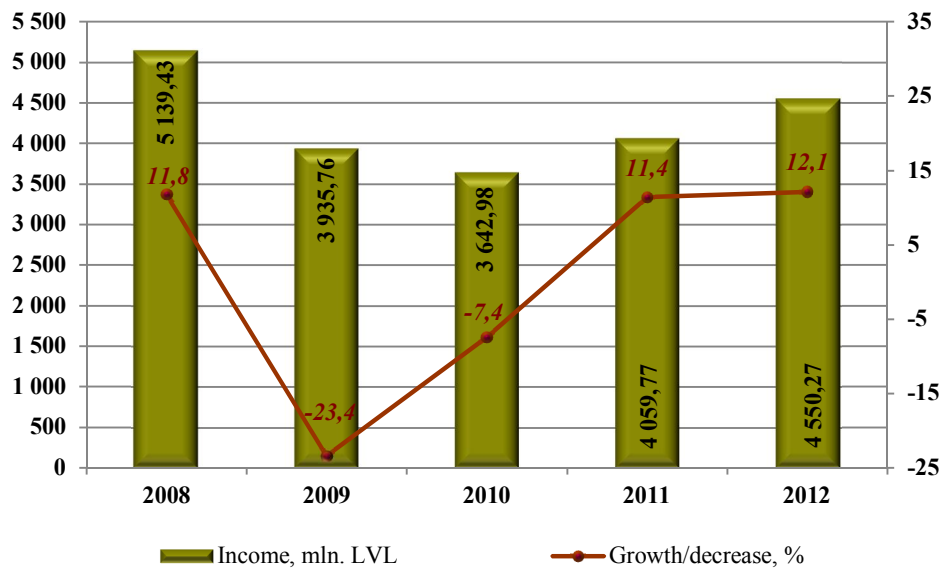
In accordance with the law “Amendments to the law “On State Budget 2012”” enacted on 13 September 2012, the annual plan of budget revenues administered by the SRS was increased by LVL 215,10m, or by 5,1 %.

#### The budget revenues administered by the SRS in 2012 as compared to the revenues of 2011 and target figures of 2012

Tax types	Revenue plan of 2012 (m LVL)	Revenues (m LVL)		Difference (2012–2011)		Meeting of revenue target figures in 2012	
		2011	2012	m LVL	%	m LVL	%
<b>Tax revenues</b>	4 175,36	3 830,60	4 242,09	411,49	10,7	66,73	101,6
CIT	246,20	196,43	243,87	47,44	24,1	-2,33	99,1
VAT	1 070,39	958,65	1 116,60	157,95	16,5	46,21	104,3
Excise Duty	500,65	481,52	494,66	13,14	2,7	-5,99	98,8
MSSIC	1 386,73	1 295,14	1 399,36	104,22	8,0	12,63	100,9
PIT	853,13	792,73	871,42	78,69	9,9	18,29	102,1
Natural resource tax	13,61	10,38	12,27	1,90	18,3	-1,34	90,2
Customs tax	22,71	20,87	22,43	1,56	7,5	-0,28	98,8
Gambling and Lottery tax	14,83	12,24	14,99	2,75	22,4	0,15	101,0
Car and motorcycle tax	6,20	5,45	6,26	0,81	14,8	0,06	101,0
Transport vehicle using tax	47,50	44,17	47,57	3,39	7,7	0,07	100,1
Enterprise car tax	12,50	12,14	11,75	-0,39	-3,2	-0,75	94,0
Electrical energy tax	0,91	0,87	0,91	0,04	5,2	0,00	100,5
<b>Non-tax revenues</b>	272,54	229,17	308,19	79,01	34,5	35,65	113,1
<b>TOTAL</b>	<b>4 447,90</b>	<b>4 059,77</b>	<b>4 550,27</b>	<b>490,50</b>	<b>12,1</b>	<b>102,38</b>	<b>102,3</b>

The tax and non-tax revenues into the state budget administered by the SRS in 2012 were LVL 4 550,27m, exceeding the revenues collected in 2011 by LVL 490,50m, or by 12,1 %.

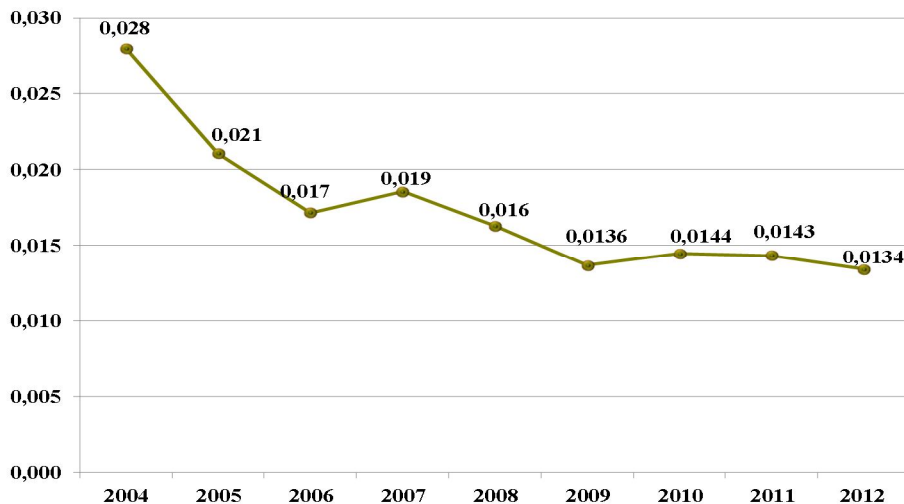
**Revenues to the consolidated state budget administered by the SRS over the period of time 2008-2012**



In the period of time 2004-2012 a definite tendency of decreasing concerning the effective indicator of SRS performance – the cost of one collected LVL – was observed.

In 2012 the cost of the collection of one LVL was LVL 0,0134, which is by 6,3 % less than in 2011 and by 52% less than in 2004.

**The costs of one collected lat 2004–2012**



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 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.

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

- **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.

### **3.2. Services provided to taxpayers and customs clients**

#### **3.2.1. The improvements made in the area of client service**

In order to achieve uniform providing of services at all SRS taxpayer service locations and in customs offices, to improve client service and increase the satisfaction level of clients with the services provided by the SRS:

- taxpayer and customs client service standards were implemented and the system monitoring the compliance with these standards was developed;
- one stop shop agency pilot project was implemented at two client service centres and the introduction of this principle in all client service centres has started;
- in 2012 updates of public services provided by the SRS were published at the portal [www.latvija.lv](http://www.latvija.lv) on regular basis – 136 public services provided by the SRS and 208 service descriptions developed in correspondence with all types of filed returns, informative declarations and reports are available to taxpayers. In 2012 the list of services was supplemented by a new tax administration service – “Application for the Participation in Enhanced Co-operation Program”;
- a number of days for the registration at the VAT payer Register of the SRS has been reduced from 10 working days to five working days for the traders who do not fall under any of the registration risk indications (effective as of 1 January 2013);
- simplified procedure for declaring of income – the SRS makes available to the taxpayers the information they need for filling in the annual income declaration. This information is available to the SRS from the statements of the payers of income about the amounts paid to natural persons, from private pension funds and insurance companies;
- simplified bookkeeping procedures and requirements for filing of annual reports by small associations and foundations;
- EDS has been modernised by making it safer and more comfortable for the users by supplementing the error module with clear indication of the essence of the error and of possible correction versions.
- the project “Implementation of Excise Goods Movement and Monitoring System” funded by the ERDF was successfully completed, making it easier for traders to move excise goods under the duty-suspension arrangement within the EU territory.



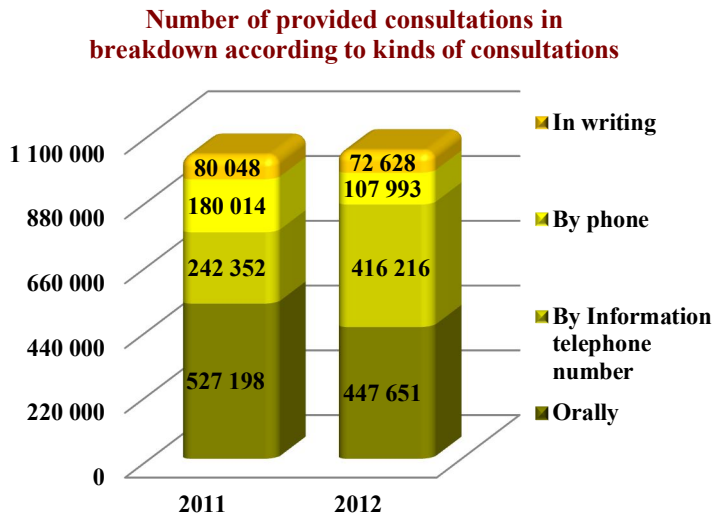
Photo: SRS



Photo: SRS

### 3.2.2. Total of services provided by the SRS

#### Consulting and providing information to taxpayers and customs clients



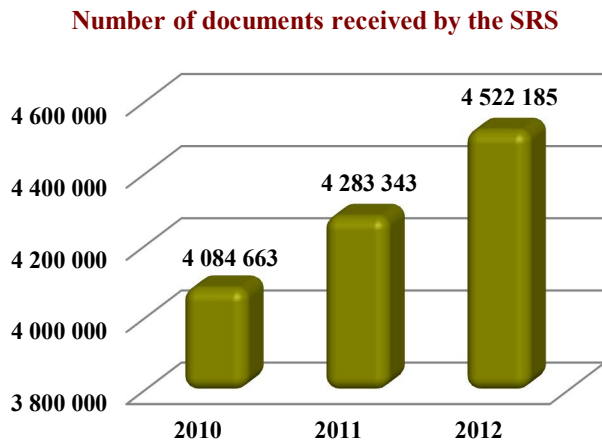
In 2012 the total of 1 044 488 consultations were provided to taxpayers and customs clients, exceeding the number of 2011 by 14 876 consultations or by 1,4%. The taxpayers were consulted orally in presence at the client service centres, in writing (in paper form and electronically), and also by phone. Oral consultations constituted the biggest number of all consultations – 43%, however their number had decreased in comparison to 2011 by 15%. The information telephone number 1898 was used to provide 416 216 consultations achieving the

greatest increase of their number against the number of the previous year – by 71,7%.

In order to improve tax collection and protection of the society by implementing the SRS Performance and Development Strategy 2011-2013, 851 informative events (seminars, lectures, discussions etc.) were organised for taxpayers in 2012, and 73 information materials were prepared.

467 references regarding the taxpayer rights in specific legal situations were given to taxpayers in 2012, which is by 40% more than in 2011.

#### Receipt of tax and customs returns and reports

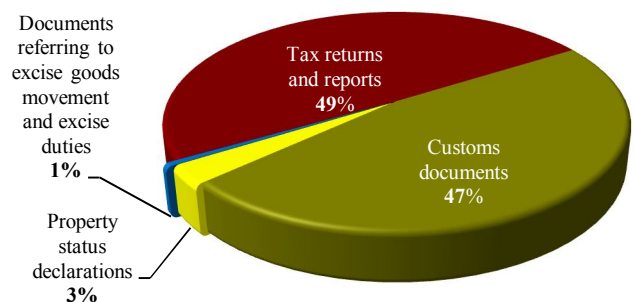


In 2012 the number of tax and customs returns and reports received and processed was 4 522 185 exceeding the number of 2011 by 238 842 returns and reports or by 6%.

2 073 706 data quality checks of tax declarations were made in 2012, which exceeds the corresponding number of 2011 by 114 312. Data credibility checks were applied to 375 031 received reports and returns which is by 228 921 less than in 2011.

In compliance with the law on declaring of property status and unreported income of natural persons 132 033 property status declarations were submitted to the SRS by 31 December 2012. The previously unreported income was declared in the total amount of LVL 4,67m, to which the PIT was assessed in the amount of LVL 702,95 thous.

#### **Structure of documents received by the SRS**

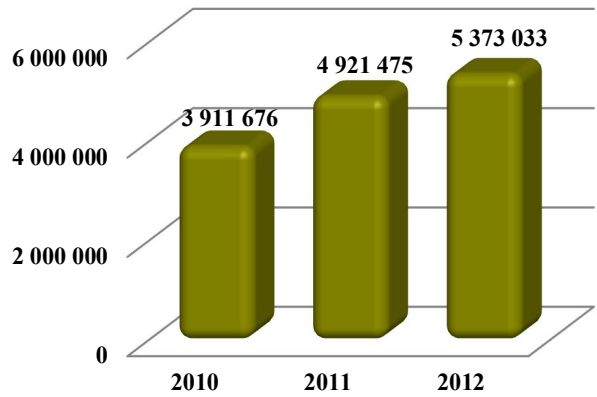


The EDS run by the SRS provides the taxpayers with the possibility to submit to the SRS the tax and informative declarations, and also reports, applications and other documents required by the legislation, fast and easily.

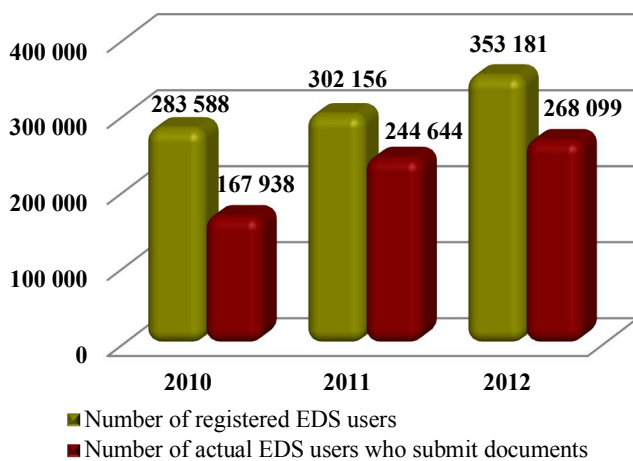
In 2012 the number of documents filed electronically increased by 9 % in comparison to the previous year.

Considering that starting on 1 January 2014 the taxpayers – both the natural persons engaged in business activities and legal persons will submit the returns to the SRS only by means of EDS, the number of potential users of the system will continue to grow.

**Number of documents submitted to the SRS using EDS**



**The number of EDS users registered and really using the system by the end of period**

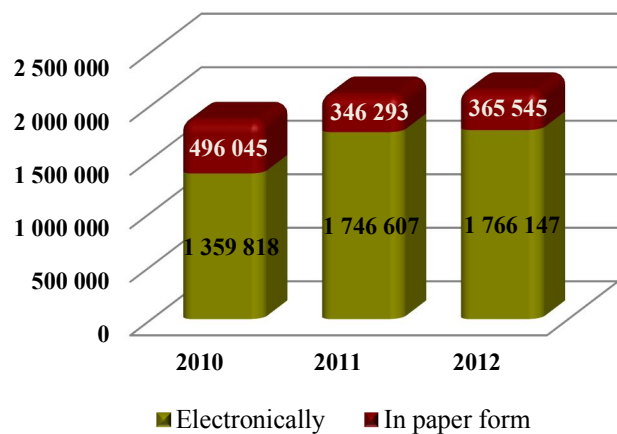


By the end of 2012 the number of taxpayers registered as EDS users was 353 181, including 163 406 legal persons and 189 772 natural persons.

The total number of clients registered at the EDS in 2012 exceeded the number of the clients of 2011 by 17%, and the number of real taxpayers (clients) filing the documents electronically in 2012 increased by 10% in comparison with the previous year.

In 2012 83% of the total number of submitted customs documents were filed electronically, which exceeds the number of 2011 by 19 540 documents or by 1%.

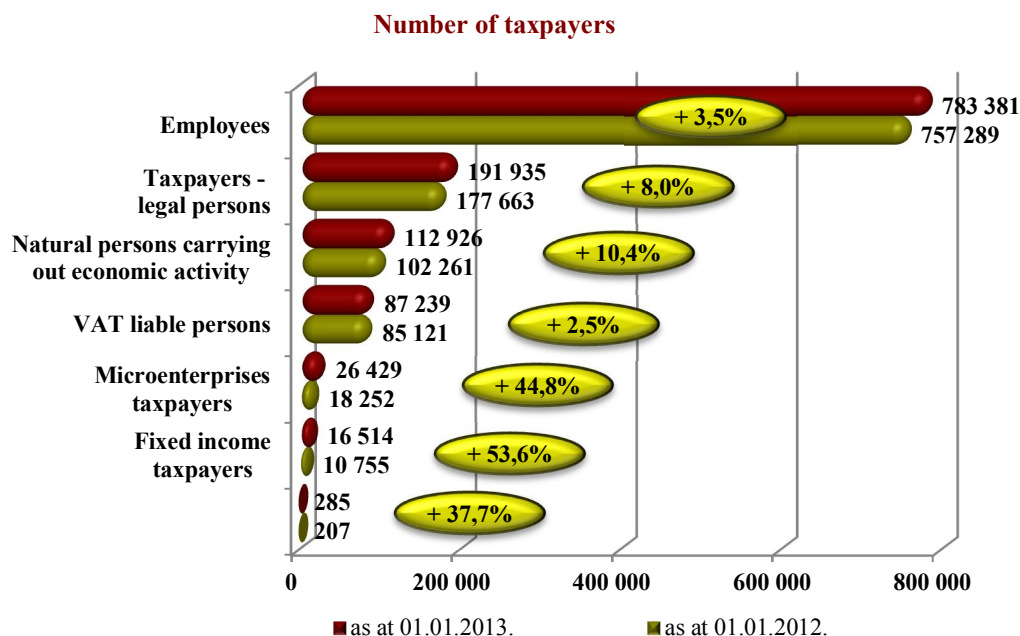
**Number of customs documentation processed electronically and in paper form**



### 3.2.3. Tax administration services

#### Taxpayer registration

The number of taxpayers registered by 1 January 2013 has increased in all taxpayer segments in comparison with the corresponding period of the previous year.



In 2012 from the VAT payer register 9 307 taxpayers were excluded, the majority (60%) of whom were excluded due to non-filing of VAT returns, 17% because of failing to submit documents needed for the verification of VAT returns, and 17% were deregistered upon their own request.

#### Refunding of overpaid taxes

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

Indicator	Refunds of overpaid taxes were made***			
	2012, LVL m	Changes as compared to 2011, LVL m	Number in 2012	Changes as compared to 2011
VAT collected in domestic territory	673,22	+ 28,03	110 287	+ 9 291
CIT *	40,15	- 8,9	11 063	- 3
PIT **	32,89	+ 0,76	303 978	+ 4 433

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

\*\* 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 refunds of erroneously made payments.

#### Enhanced Cooperation Program

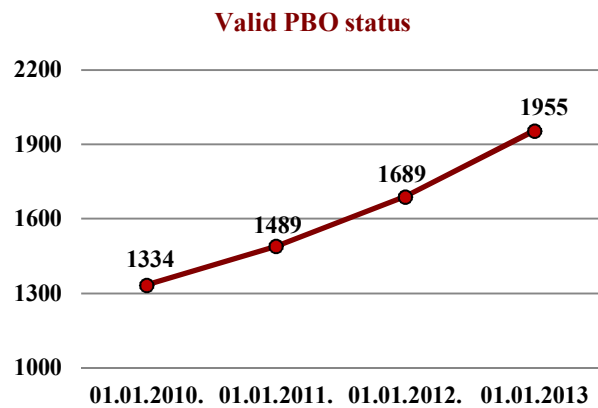
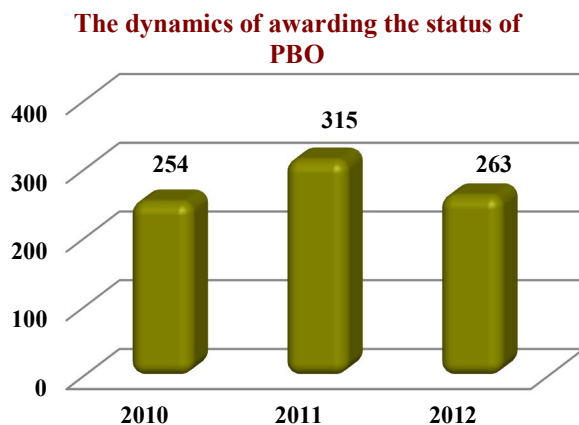
Starting 7 July 2012 the taxpayers could apply for the status of the participant of Enhanced Cooperation Program (Program) offering the privileges and benefits provided by the state. The objective of the Program is to promote closer and more effective cooperation between taxpayers and tax administration by easing the administrative burden. By 31

December 2012 the total of 77 applications were received by the SRS. 36 taxpayers were included into the Program.

### 3.2.4. Awarding of the Status of Public Benefit Organisation

The Status of Public Benefit Organisation (PBO) in 2012 was awarded to 263 non-government organisations mostly in the following areas of public benefit activities:

- in the area of support of sports activities to 89 organisations;
- in welfare area to 87 organisations;
- in the area of the development of civil society to 71 organisation;
- in the area of culture to 59 organisation;
- in the area of increasing the welfare of the groups of poor and socially less protected persons to 30 organisations;
- in the area of protection of natural environment to 10 organisations;
- in the area of education facilitation to 10 organisations etc.



### 3.2.5. Customs services

#### Processing of customs procedures

The total number of export customs declarations, or SAD, processed in Latvia has risen by 13,4 % compared to 2011. The total value of exported goods has increased by 32,5 % (according to customs declarations, the total value of goods exported in 2012 was LVL 2,26 billion, which is by LVL 553,66m more than in 2011). In 2012, 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, mineral fuel, iron and steel, electrical devices, oil products in the total amount of LVL 1,24 billion or 55% of the total statistical value of the exported goods. In 2012, in terms of the statistical value of exported goods, the largest amount of goods was exported to Russia, Norway and Algeria. The goods exported to Russia included beverages, alcoholic liquids and vinegar in the total value of LVL 287,13m; mechanisms and mechanical devices valued LVL 110,7m, electrical equipment and devices in the amount of LVL 72,8m; exports to Norway included timber and timber products valued LVL 32,36m; iron or steel products valued LVL 92,51m; exports to Algeria included iron or steel products valued LVL 26,19m, grain products in the value of LVL 49,73m. In 2011, 3,96m tonnes of goods were exported, which exceeds the corresponding amount of 2011 by 1,12m tonnes or 39,6 %.

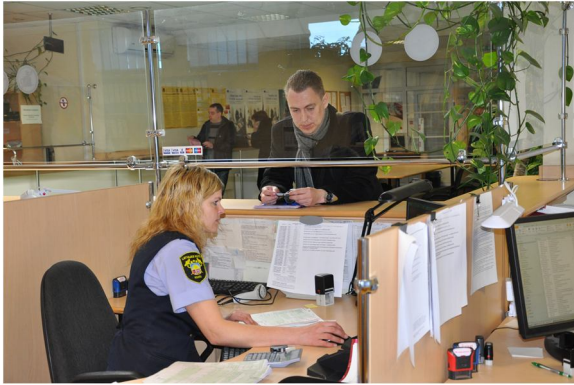


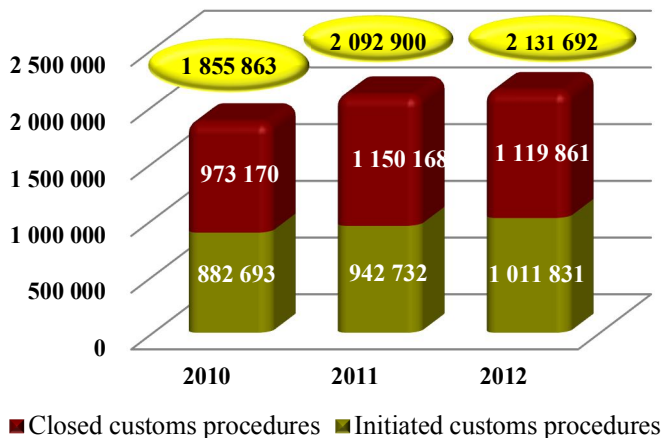
Photo: SRS



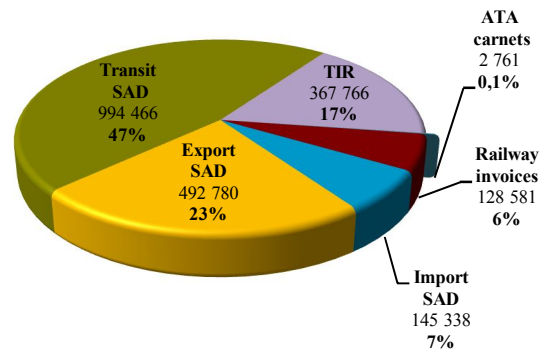
Photo: SRS

The number of import customs declarations for the release of goods for free circulation processed in 2012 increased by 3,6%. The total statistical value of imported goods has increased by 9,3% (according to customs declarations, the total value of goods imported in 2012 was LVL 1.98 billion, which is by LVL 168,14m more than in 2011). In 2012, 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 1,03 billion, or 52% of the total statistical value of imported goods. In 2012, 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 2012, imports from Russia included mineral fuels valued LVL 386,06m, iron and steel valued LVL 162,21m, fertilisers valued LVL 48,19m; imports from Belarus included mineral fuels valued LVL 197,16m, timber and timber goods in the value of LVL 16,11m, iron and steel valued LVL 11,76m; imports from China included electrical devices and electrical equipment valued LVL 74,09m, mechanisms and mechanical devices valued LVL 53,19m, furniture and bed accessories valued LVL 17,75m. In 2012, 4,8m tonnes of goods were imported for release for free circulation, which is by 255,87 tonnes, or 5,63% more than in the preceding year.

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

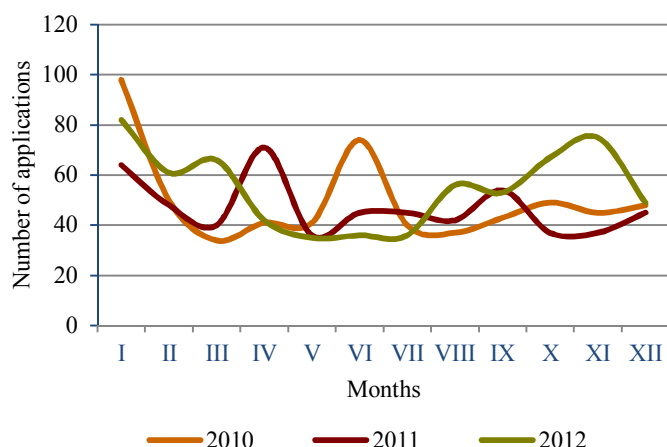


**Customs documents processed in Latvia in 2012 in breakdown according to types**



## Administration of EU tariff quotas

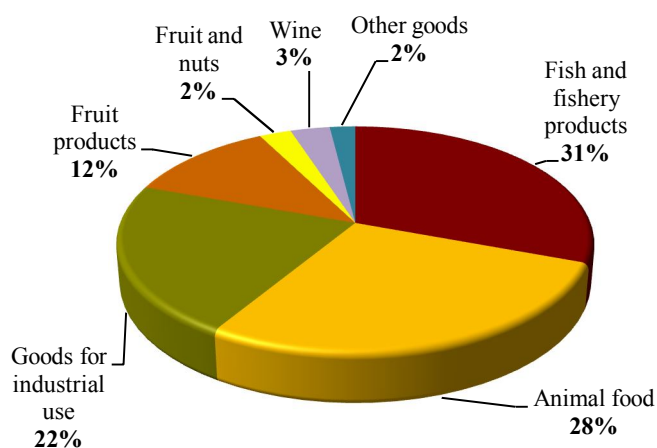
### **Dynamics of the quota application number**



In order to benefit from importing certain categories of goods from third countries at a reduced or zero customs tariff rate, in 2012 Latvian traders filed 658 tariff quota applications, and in 32 cases after the release of the goods for free circulation. The requested tariff quotas were granted in full in 652 cases and partially in three cases, rejections due to the exhaustion of the requested quotas were issued in three cases.

The highest demand in Latvia in 2012 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 30,6 %, animal feed accounted for 28,2% of the total of quantity of goods for which quotas were requested; fruit products (orange juice concentrate of Mexican and Israeli origin) accounted for 11,9% of the total quantity of goods for which tariff quotas were requested in 2012, 21,7% were goods for industrial use (mainly ferrosilicon and ferrosilicon manganese products of Ukrainian origin).

### **Proportion of quoted goods in 2012**



## Issuance of customs permits

The objective of customs policy initiatives at the EU and national level is reduction of administrative obstacles and facilitation of business activities by providing the opportunity to use 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 declaration, 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 31.12.2012.
1. Permits for simplified procedures (number)	55
1.1. For the application of a simplified declaration procedure	24
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	74
2.2. For the application of the status of an authorised consignor	79
3. Authorised Economic Operator (AEO) certificate	17

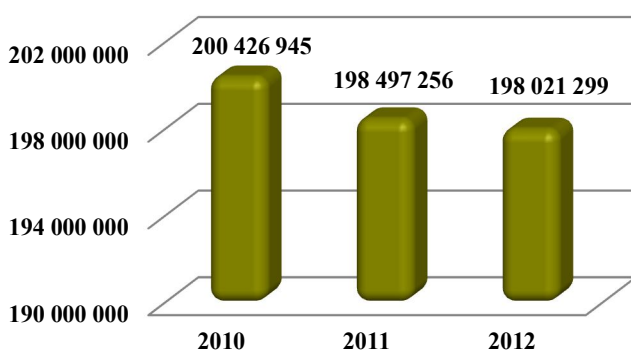
### 3.2.6. Services in the area of excise goods movement

The total number of licences, permits, statements and certificates issued in 2012 was 1 861, and 1 251 of these documents were renewed.

Due to the detected violations of legislation, 857 licences, permits, statements and certificates, authorising the handling of excise goods, were revoked in 2012.

By 31 December 2012 the total number of valid licences, permits, statements and certificates in the area of excise goods movement was 11 992.

**Number of issued excise duty stamps**



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 2012 has issued and renewed the registration of 275 excise duty general security certificates and 47 one-time security certificates.

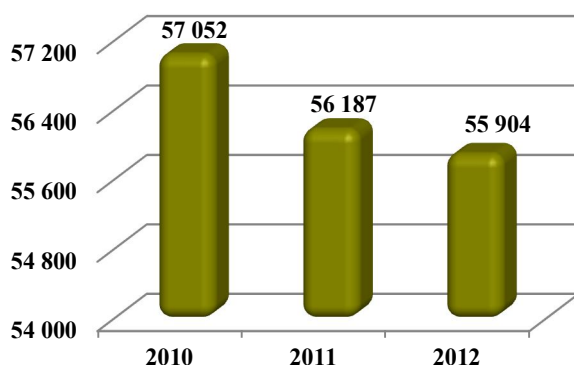
The total number of excise duty stamps issued in 2012 was 98 021 299, incl. 92 242 216 alcoholic beverage stamps and 5 779 083 excise duty stamps for marking tobacco goods.

### 3.2.7. Services in the area of prevention of conflict in the activities of public officials

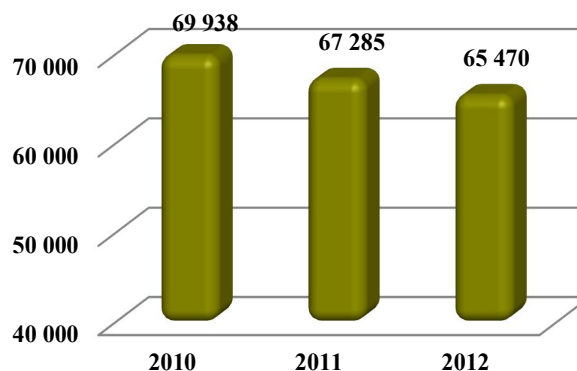
By 1 January 2013, 55 904 public officials were registered in the country. The reduction of the number of public officials can be explained by the total and numerous reorganisations of state and local government institutions.

In 2012 the total number of declarations submitted to the SRS by public officials was 65 470 and 7 026 lists of public officials and amendments to them were also submitted to the SRS.

**Number of public officials**



**Number of declarations filed by public officials**



### **3.2.8 Paid services**

#### Realisation of strict accountancy seals

The service is provided in accordance with Cabinet Regulations No.82 of 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. 4 100 strict accountancy seals were realised in 2012 for the amount of LVL 861.

#### Realisation of customs security wire type seals

The service is provided in accordance with Cabinet Regulations No.82 of 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. 38 603 wire type customs security seals were delivered to the traders in 2012 in the amount of LVL 1 930, 15.

#### Realisation of customs security stickers

The service is provided in accordance with Cabinet Regulations No.82 of 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. 2 375 customs security stickers were realised to the traders in 2012 in the amount of LVL 285.

In addition to these paid services rendered by the SRS in accordance with Cabinet Regulations No.774 of 18 October 2005 “Regulations Regarding the State Fee for the Services Provided by Customs Authorities”, a state fee was introduced on the following services provided by customs authorities:

- customs clearance of goods outside the location of customs authority or after the working hours;
- temporary storage of goods at locations by permission of customs authorities exceeding the limit of time set at handing over the goods for storage or clearance;
- establishing the origin or the conformity of the goods with the Combined Nomenclature code using the services of the Customs Laboratory of the SRS Customs Department.

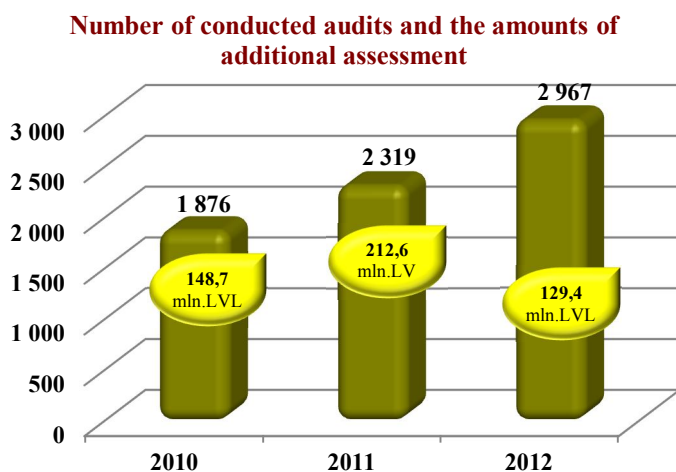
In 2012 the state fee on the services provided by customs authorities was paid into the state budget in the amount of LVL 45 165,08.

### **3.3. Tax, customs and excise goods movement control**

In 2012 the total number of tax, customs and excise goods movement control activities conducted by the SRS was 48 554, including:

- 967 tax audits;
- 12 902 data credibility checks;
- 6 001 thematic checks;
- 4 159 inspections;
- 7 surveillance activities;
- 1 876 excise goods movement supervisory inspections;
- 20 642 customs physical controls.

## Tax audits



2 967 tax audits were carried out in 2012, exceeding their number in 2011 by 648 audits or by 28 %. Additional assessment as a result of tax audits was made in 2012 at the amount of LVL 129,4m, incl. LVL 114,6m from the audits of legal persons and LVL 14,8m from the audits of natural persons.

The taxpayers had themselves adjusted tax amounts in their tax returns prior to the start of tax audits in the amount of LVL 313,7 thous., exceeding the respective amount of 2011 by 72%.

## Data credibility checks

In 2012 the SRS carried out 12 902 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 2036 checks;
- in customs area 10 866;
- in excise area 41.

As part of the data credibility inspection process, taxpayers are afforded the opportunity to correct themselves the irregularities 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 2012 were assessed in the amount of LVL 5 286,43 thous. In turn, 962 taxpayers had themselves eliminated the detected irregularities and filed the adjusted returns adding LVL 1 007,71 thous. to the amount of taxes paid into the state budget.

## Thematic checks

In 2012 the SRS conducted 6001 thematic checks resulting in the application of administrative penalties in the amount of LVL 1 467,0 thous. The hit rate of the thematic checks was 85 %. During the thematic checks 4 904 taxpayers were inspected: 4 539 legal entities and 365 natural persons.

Over the 2012 the majority of thematic checks – in 4719 cases targeted the employers, in 3 382 cases company accounting systems were checked, 2 028 trade checks were made, 758 thematic checks targeted the service area and in 192 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, 2 226 taxpayers have themselves adjusted their tax returns at the amount of LVL 4 119,4 thous.

### Inspections and monitoring activities

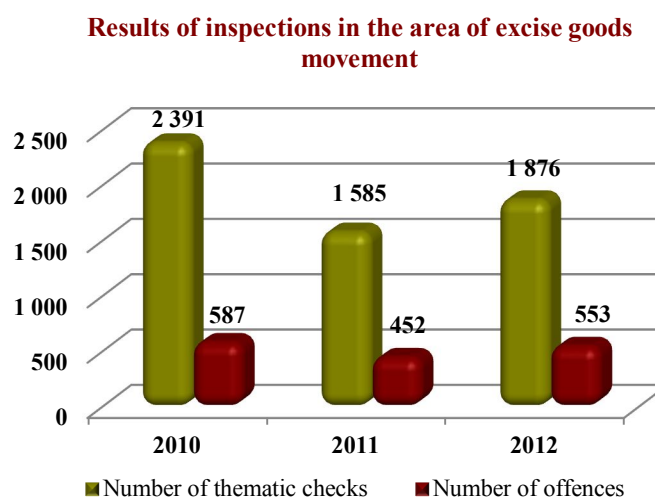
In 2012 at the sites of taxpayer business activities 4159 inspections and seven monitoring activities were conducted. In cases when the taxpayers did not cooperate with tax administration in the course of inspection, the SRS had applied fines in accordance with Latvian Administrative Violations Code in the amount of LVL 181,3 thous.

### Suspension of business activities

In accordance with Art 34.<sup>1</sup> of the law “On Taxes and Fees” the SRS have in 2012 made the decisions to suspend the business activities of 637 taxpayers.

### Inspections in the area of excise goods movement

In 2012 the SRS conducted 1 876 inspections in the area of excise goods movement, exceeding the respective number of 2011 by 291 inspection or by 18%. As a result of the inspections violations were detected in 553 cases, and administrative penalties were imposed in the amount of LVL 206,95 thous. Due to the development of the risk analysis system, the hit rate of the inspections has grown from 17% in 2011 to 29% in 2012.



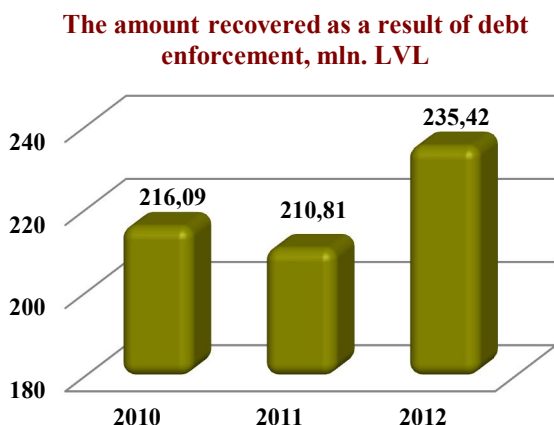
### Physical customs controls

20 642 physical customs controls of transport vehicles, cargos and personal luggage were carried out in 2012. As a result of the customs controls 1207 administrative violation protocols were drawn up in accordance with the Latvian Administrative Violations Code and administrative penalty was applied in the amount of LVL 161,56 thous., and 77 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, 8,03 kilograms of various narcotic substances were seized over the 2012.

Two cash sniffer dogs started to work in 2012. During the customs control activities conducted at the international airport “Riga” the service dog handlers of the SRS National Customs Board in five cases of failing to declare cash detected the concealed cash in the amount of EUR 74 795.

### 3.4. Tax debt recovery



Major improvement was made during the 2012 in the performance and results of SRS tax debt recovery process. As a result of tax debt recovery work, LVL 235,42m were paid into the budget, exceeding the respective figure of 2011 by LVL 24,61m.

The total arrears in the payments into the budget administered by the SRS by 1 January 2013 was LVL 1 023,65m, exceeding the respective figure of 1 January 2012 by 10,2 % or LVL 94,8m.

The average monthly proportion of recovered debts against the total amount of really recoverable debts was 11,19% in 2012, exceeding the respective amount of 2011 by 4,16 percentage points.

In December 2012 with the purpose of improving the tax debt recovery process, under the Ministry of Finance European Social Fund project “Support of Reforms in the Area of Budget and Finance Policy”, where the SRS is a partner, an Agreement Nr.FM 2012/2-ESF/SFPT “Expert Consultations and Preparation of Report Regarding the Improvement of Tax Debt Administration” was signed with 30 June 2013 as the deadline.

In order to mitigate the burden of tax debt arisen as a result of economic crisis, in accordance with the law on Tax Support Activity (TSA) the taxpayers – both legal and natural persons who by 1 September 2011 had tax debt unpaid until 1 October 2012, were offered the opportunity to apply for the participation in TSA activity. The activity provided for the cancellation of late payment penalty and 90% of fine on the condition that the taxpayer makes the payment of basic tax debt and related fine in the amount of 10% by a certain date. By 31 December 2012 the SRS had received 2 774 applications for the participation at the TSA program, including 1 534 applications made by legal entities and 1 240 from natural persons. 1 738 decisions were made to qualify for the TSA in the total amount of tax arrears LVL 10 133 069,98.

### 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 and also in the performance of the officials and employees, the SRS carries out operational activities and pre-court investigation in criminal proceedings.

The detection and investigation of criminal activities in the area of state revenue and customs in 2012 is characterised by the following effective indicators:

Indicator	2012	Change in comparison to 2011
<b>Criminal proceedings initiated</b> (number), incl.:	<b>520</b>	<b>+13</b>
- in tax area	309	
- in customs area	211	
<b>Criminal proceedings forwarded to start prosecution</b> (number), incl.:	<b>285</b>	<b>+14</b>
- in tax area	178	
- in customs area	107	
<b>Financial resources seized</b> (thous. LVL)	<b>2 328,28</b>	<b>+1 566,94</b>
<b>Assets recognised as illegal proceeds and transferred to the state budget</b> (thous. LVL)	<b>710,96</b>	<b>+276,75</b>
<b>True beneficiaries making use of the money laundering schemes created by criminal groups, correcting VAT returns and making payments into the state budget</b> (thous. LVL)	<b>394,83</b>	<b>+123,28</b>

Regarding criminal activities in the area of state revenue, the SRS has initiated 309 criminal proceedings exceeding the respective number of the previous year by 61 criminal proceedings.

### Most significant criminal procedures initiated in 2012 in the area of state revenue

1) In March 2012 the activities of a major criminal group were stopped. The criminal group had carried out their activities in the fishery and construction areas, and in shipping agency services with the total turnover of LVL 2,3m legalising the illegal proceeds at the accounts of credit institutions located in Belgium, Poland, Estonia, Germany, Czech Republic, Great Britain and Lichtenstein. The total amount of the detriment caused to the state budget due to unpaid VAT was about half a million lats. Within the framework of the criminal proceedings with the participation of Antiterrorist Unit "OMEGA" of the State Police 41 search operations were carried out in Riga, and the regions of Jelgava, Tukums, Ventspils and Talsi. In the course of the searches cash was withdrawn in the amount of EUR 11 000 and LVL 5 000. Ten persons under the proceedings were declared suspects, of them regarding four persons the arrest as safety measure was replaced by release on bail in the amount of LVL 85 000;

2) In April 2012 the activities of a criminal group were stopped. The criminal group had over the period of time of more than three years carried out large scale fraudulent activities in the area of scrap metal in the territory of Riga causing damages to the state budget in the amount of more than LVL 6m. Bank accounts under the control of the organised criminal grouping were opened in Lithuania and Czech Republic. Within the framework of the criminal proceedings 26 searches were made in Riga during which the SRS officials were attacked and the attempts were made to destroy evidence and delete the server data from distance. In the course of the searches cash was withdrawn in the amount of EUR 300 000. The total of 10 persons under the proceedings was declared as suspects. For three persons the arrest as safety measure was replaced by release on bail in the total amount of LVL 350 000;

3) In September 2012 the activities were stopped of a criminal group which was acting in the period of time between 1 January 2011 and 19 September 2012 in management of houses and premises, in the business of construction and electric installation. The criminal group had evaded taxes on a large scale and legalised the illegal proceeds, causing damages to the state budget in the amount of about LVL 1,3m. In order to make available the illegal proceeds of unpaid taxes to the organisers of the criminal activities and their "clients", a mechanism was created for transferring the financial resources through various bank accounts of "fictitious" companies, thus trying to disguise the true origin and ownership of the illegal proceeds. Within the framework of the initiated criminal proceedings 16 searches were made in Riga during which the cash in the amount of LVL 27 000 was seized. The total of six persons under the proceedings was declared as suspects, for two of them the arrest as safety measure was replaced by release on bail in the total amount of LVL 41 000.

178 criminal proceedings were forwarded to start criminal prosecution, which is by 18 more than in 2011. The amount of detriment to the state detected within the framework of initiated and received criminal proceedings was LVL 24 077,54 thous.

### Most significant criminal proceedings in the fiscal area forwarded for criminal prosecution

1) Under the criminal proceedings initiated in March 2010 the activities of a criminal grouping involved in legalisation of illegal proceeds or “money laundering”. According to initial information the amount of illegal proceeds turnover of the criminal group in the period of time between October 2008 and December 2009 was LVL 8,7m and VAT was evaded in the amount of LVL 1,5m. 16 search operations were conducted in and around Riga involving the SRS service dog handlers due to a serious suspicion of the group organiser’s involvement in narcotics trafficking. The total amount of company money resources seized and attached in 23 current accounts was LVL 25 000.

As a result of evidence obtained in the course of pre-court investigation the initiated criminal proceedings were divided, and in August 2010 criminal proceedings were started on the eventual tax evasion of the company in the amount of LVL 195 770,86 and of large scale legalisation of illegal proceeds in the period of time between 1 February 2008 and 31 December 2009. In March 2012 the criminal proceedings were forwarded for the criminal prosecution against four persons, including the official of the really existing company, the organiser of the criminal grouping and two participants;

2) Within the criminal proceedings started in April 2010 large scale pre-court investigation activities were carried out by conducting 15 search operations in Riga and Jelgava region. The criminal scheme created by establishing 20 bogus and 6 offshore companies was operating in different areas including internet services and timber trade, with the purpose to minimise the amount of taxes payable into the state budget by really existing enterprises. In order to conceal the origin of the money, the money resources from the transactions that had never taken place, were transferred to accounts in Latvian and other EU Member State credit institutions.

As a result of evidence obtained in the course of pre-court investigation in December 2012 separate criminal proceedings were initiated on tax evasion and large scale legalisation of illegal proceeds in October and November 2009. As a result of calculations and analysis it was found that damages had been inflicted to the state budget in the amount of LVL 10 960,69 and from the offshore companies run by the criminal group cash was seized in the amount of EUR 1 546 720,00. The criminal proceedings were forwarded for criminal prosecution against four persons.

211 criminal proceeding were initiated by the SRS in the area of customs, which is by 48 cases less than in previous year, and for criminal prosecution 107 proceedings were forwarded which is by 4 cases less than in 2011. As a result of detected infringements of law it was assessed (where possible) that the damages to the state had been prevented in the amount of LVL 8 796,95 thous.

Within the initiated criminal proceedings and in administrative violation cases as a result of the activities of the SRS structural units the following number of goods was withdrawn:

Indicator	2012	Changes in comparison to 2011
<b>Cigarettes withdrawn</b> (number)	<b>88 814 276</b>	+1 840 072
<b>Alcohol withdrawn</b> (litres)	<b>5 851,5</b>	-7 370,1
<b>Fuel withdrawn</b> (litres)	<b>81 127</b>	+40 157
<b>Narcotic and psychotropic substances withdrawn</b> (grams)	<b>4 416</b>	-83 505

Most significant criminal proceedings initiated in 2012 in the customs area

1) On 13 February 2012 criminal proceedings were initiated regarding the illegal movement into the Latvian customs territory without customs clearance of 8 151 000 cigarettes “Marlboro” marked with excise duty stamps of unknown origin. The illegal cargo was found by customs officers in the territory of the Freeport of Riga on 9 February 2012 in the course of conducting customs control of a sea container shipped from China;



Photo: SRS



Photo: SRS

2) On 5 March 2012 criminal proceedings were started on illegal movement of narcotic substances across the Latvian customs border detected on 4 March 2012 in airport “Riga” when a Latvian citizen who arrived from Rome was detained and in whose abdominal cavity during a medical check 61 plastic containers containing a cocaine liquid of 405 grams of pure cocaine were found. The criminal proceedings were referred for criminal prosecution on 19 April 2012.

3) On 10 May 2012 criminal proceedings were initiated regarding illegal movement into the Latvian customs territory of narcotic substances – 2 305,8512 grams of marijuana, detected in airport “Riga” by customs officers assisted by service dog handler during the customs control of a citizen of Bulgaria who arrived from Athens. The criminal proceedings were referred for criminal prosecution on 14 November 2012;



Photo: SRS

4) On 4 June 2012 criminal proceedings were initiated regarding illegal operations with excise goods – transportation of 12 920 000 cigarettes of various brands marked with excise duty stamps of the Republic of Belarus and the Russian Federation – detected in cooperation with the Security Police after stopping a truck carrying cigarettes without supporting documents;



Photo: SRS



Photo: SRS

5) On 21 October 2012 criminal proceedings were started regarding illegal trafficking of narcotic substances – 124, 4812 grams of methamphetamine – detected by customs officers after stopping a truck transporting the above mentioned substances and also various blade weapons.

The criminal proceedings were referred to the State Police as the competent authority on 23 October 2012.

### 3.6. Pre-trial hearing of disputes and litigation

#### The decisions made as a result of pre-trial hearing of tax disputes and the concluded settlement agreements

Type of decision	2010	2011	2012
Tax dispute cases	1 166	1 390	1 694
Administrative violation cases	256	547	750
Recovery of late tax payments	284	216	287
Other disputes	232	257	392
<b>Total</b>	<b>1 938</b>	<b>2 410</b>	<b>3 123</b>
<b>Concluded settlement agreements</b> regarding the payment of tax amounts assessed as a result of control activities	33	61	64

In 2012 the number of decisions taken as a result of pre-trial consideration of tax disputes has increased in comparison to 2011 by 709 decisions or 29%. The growth of the number of decisions made as a result of considering the appeals and complaints can be seen in all categories of decisions.

#### Number of hearings in which the court rulings have entered into legal force, and the amounts payable into the state budget

Type of ruling	2010	2011	2012
Tax dispute cases	311	274	411
Administrative violation cases	131	88	127
Recovery of late tax payments	54	57	68
Other disputes	13	13	17
<b>Total</b>	<b>509</b>	<b>432</b>	<b>623</b>
The amounts payable into the state budget in the cases in which the court rulings have entered into legal force (LVL m)	12,65	12,96	31,01

### **3.7. Improvement of management and performance systems**

In 2012 several activities were completed in order to improve management and performance systems.

#### Optimisation of organisational structure

In 2012 optimisation of the SRS structure was continued. In order to strengthen the capacity of control and to increase the efficiency of the use of resources, on 1 April 2012 the Tax Control Department was reorganised by including the Customs Audit Department.

In accordance with SRS Regulations approved on 6 September 2012 four Deputy Directors General are directly subordinated to Director General of the SRS: 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 National Customs Board, Deputy Director General in the Area of Crime Prevention, serving also as Director of Finance Police Department, and Deputy Director General in Administrative Area.

In order to reduce the number of structural units directly reporting to Director General of the SRS, a Department for Strategic Management Issues and Public Relations was established taking over the tasks of the Strategic Management Issues Division, Management Affairs Division, Public Relations Division and International Relations Division.

As of December 2012 the large Taxpayers Department was included into the Tax Department as a client service centre integrating at the Tax Department all processes related to client service.

#### Management of processes

In 2012 the development of the system of process management was continued by breaking down the responsibilities delegated to the SRS structural units into unified, transparent and controllable tasks and execution processes. The structural units responsible for the execution of tasks analyse the processes and make them more efficient by carrying out structural changes, upgrading the regulations of the structural units and job descriptions of the SRS public officials and employees.

Current information is available at the Intranet site of the SRS where the staff can send in their proposals, present their point of view and evaluation of various issues and also to file in free form reports/information regarding irregularities, problems, cases of corruption having a negative impact upon the quality and efficiency in the performance of the tasks delegated to the structural units. These reports are considered and forwarded to the persons responsible for elimination of the reported irregularities, problems or corruption incidents.

#### Risk management

With the purpose to achieve maximal efficiency in the implementation of the SRS mission 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. On 27 January 2012 the updated SRS risk management policy was approved. In order to facilitate the implementation of the unified risk management procedures in all structural units of the SRS, the description of risk management process was developed and approved on 10 July 2012. In the further development of the risk management process it is planned that starting 2013 the SRS structural units develop their action plans in accordance with the results of risk management carried out by them.

### Personnel management

In 2012 the SRS Personnel Management and Development Strategy 2012-2014 was approved basing the achievement of major objectives upon the competency, high professional standards and the responsibility of SRS staff towards the clients and society. In order to implement the Cabinet Regulations Nr 494 of 1 November 2012 “Guidelines for the Evaluation of the Performance of the Employees of the State Institutions of Direct Management”, the guidelines were developed for the evaluation of the performance of the SRS officials and other staff in the section “Putting forward the Tasks for the Next Evaluation Period”.

Internal SRS Regulations Nr 26 “The Procedure of Service Probation and Consideration of Disciplinary Cases in the State Revenue Service” were approved on 11 September 2012.

### Financial management

In addition to the existing internal regulations with the purpose of effective development of financial management internal Regulations Nr 13 “Procedure for the Assessment of Costs and Preparation of Cost Estimates/Invoices in Related to Storage of the Items or Documents Withdrawn in Administrative Violation Cases in the SRS” were approved on 12 June 2012, and also the SRS Management Accountancy classification for 2012 was developed.

### Information system security

In the area of IT system security several internal regulations were developed and updated: “The SRS IT System Security Policy”, “The SRS IT System Security Rules”, “The Procedure for the Control of Physical Security and Access to the SRS Data Centre”, “The Procedure of Registration and Management of Security Incidents of the SRS IT Systems”, “The Procedure of Risk Management of the SRS IT Systems”.

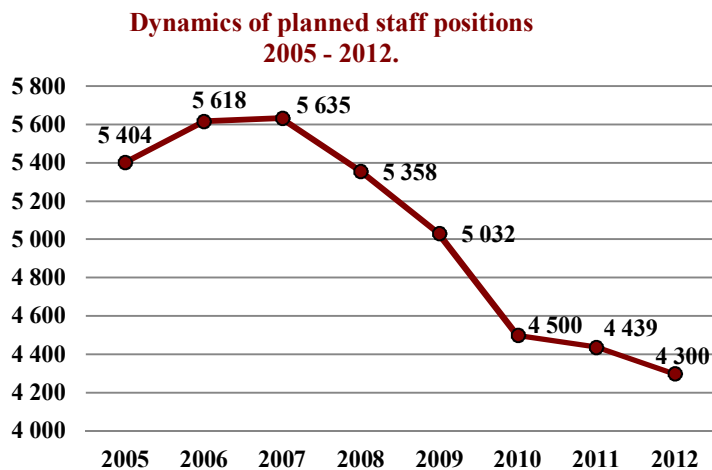
### Combating of corruption

An updated SRS corruption Risk Register maintained since 2006 was approved on 21 January 2012. The action plan for the prevention of corruption opportunities for 2012-2013 was approved. Annual reports regarding the execution of the tasks included into the plan are prepared and forwarded to the top management of the SRS.

### Internal audit

The main objective of the internal audit is to convince the SRS management of the efficiency and conformity of the internal control system with the goals of the service. In accordance with the Strategic Plan of the internal audit 11 audits were carried out in 2012. As a result of the audits the conclusion was made that the internal control system has been established and is functioning, however the efficiency of the internal control needs to be improved.

#### 4. Personnel



By the end of 2012 the total number of staff positions of civil servants and employees of SRS was 4 300 and the average number of filled staff positions was 4069. The proportion of jobs taken by the civil servants against the total number of staff positions was 85% and 15% were filled by other employees.

Of the total number of filled staff positions 93% personnel have the degrees of higher education.

In 2012 the total number of staff hired was 171 civil servants and employees. 256 civil servants and employees left the service. The staff turnover rate was 6,3 %.

The average age of the SRS staff was 42 years in 2012. In breakdown by the age groups 15% of the staff were in the age up to 30 years, 28% in the age between 31 and 40 years, 48% in the age between 41 and 50 years, 14% between 51 and 55 years, and 16% staff were in the age group over 56 years.

Of the total number of filled jobs 74% were held by women and 26% by men. In 2012 the length of service was less than one year for 3% of the total number of staff, 1-2 years for 2 % of the staff, 9 % of the staff had worked for 2-5 years, 30% were employed for 5-10 years, 20% for 10-15 years, and 36% of the staff had been employed for more than 15 years.

334 SRS staff members in 2012 were awarded the SRS distinguished service diplomas, the awards of the Ministry of Finance, the Customs mark of distinction, other honours.

Disciplinary punishments in 2012 were applied to 68 civil servants and employees, to 3 staff members a reprimand was applied, to 44 civil servants and employees reproof was applied, salary was reduced to 16 staff members and 5 were released from service.

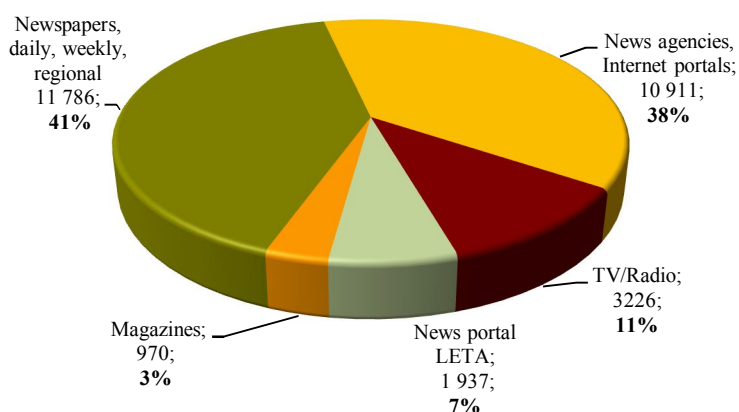
In 2012 the 7 722 staff members of the SRS took part in 425 various training events, which exceeds the respective figure of 2011 by 44%. The average time spent in training was 6,67 hours per participant. The main training themes were: labour protection issues – 25%, customs issues – 20%, tax legislation -18%, and use of IT systems – 11%, client service – 4%, other themes- 22%.

According to the results of the study made by the marketing and social research agency Ltd “Latvijas fakti”, 80,9% of the SRS staff are satisfied with the work in SRS, which is by 5 percentage points less than in 2011.

## 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 the 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 2012 was 28 830 - published in daily, weekly and regional newspapers, and magazines; broadcasts and stories over TV and radio; information provided to news agencies and Internet portals.

### Providing information about declaring of the property status of natural persons

In order to promote the availability of information regarding the declaration of the property status of natural persons, a special home page was developed [www.VIDsakumdeklaracija.lv](http://www.VIDsakumdeklaracija.lv) (active until 1 October 2012), where information regarding the declaration was available including a special test by which everyone could learn about the need to file the declaration, a video roll providing a general information about the obligation to declare the property; samples of filling in of the declaration forms and other basic information. The home page could also be used to ask questions to specialists who replied to the questions in two days' time.

Additionally in cooperation with state institutions and local governments in three TV channels: "LTV1", "TV3" and "First Baltic Channel (PBK)" the video roll was screened, and 85 000 information leaflets were distributed in post-boxes of people in Riga, Riga Region and in the largest towns of Latvia.

About 370 seminars free of charge attended by 6 800 people were organised by the SRS in all of Latvia. In cooperation with Latvian higher education institutions live TV transmission of the seminars was organised. The total of 90 708 consultations were provided to the population.

Over the same period of time more than 1 000 publications and stories were made in mass media regarding the declaring of property status and related issues, more than 20 press releases were sent out. The information was provided to the members of professional associations and unions, to Latvian embassies, to internet portals and media of Latvians residing in foreign countries.

### Participation at informative and educational events

In 2012 the SRS took part in the following informative and educational events:

- in the career education action “Shadow Day” organised by Business Education Society Junior Achievement – Young Enterprise Latvia and Swedbank on 15 February 2012;
- in the European e-Skills Week held by the Latvian Information and Communications Technology Association (LIKTA) in cooperation with the Ministry of Environmental Protection and Regional Development in March 26-30, 2012.

### Informative materials

The following booklets were published in 2012 with the purpose of providing information to the public:



“Movement of Excise Goods in and out of the European Union”



“You travel having cash on you in the amount EUR 10 000 or more? Don't forget to declare it!”



“Before acquiring an exotic souvenir, make sure, whether any of the CITES permits is required for its movement!”



“Having sold immovable property personal income tax must be paid on the income!”

### Studies of SRS client satisfaction

In accordance with the results of the client satisfaction study made by the marketing and social research agency “Latvijas fakti” in the end of 2012 the total rate of client satisfaction with the quality of service was 8,43 points (in 10 point scale).

The issues of the survey were divided into three basic blocks: questions about the level of client satisfaction with the services provided by the SRS, questions about the client satisfaction with the SRS performance during the control activities and questions regarding the availability of the necessary information.

The results of the study allow coming to the conclusion that in general taxpayers and customs clients are satisfied with the procedures and quality of service. More than three quarters of the interviewed taxpayers gave a positive or a rather positive evaluation of the SRS services in accordance with all criteria included into the study (service culture of the SRS staff, responsiveness and interest, professional ethics, level of knowledge and competency of the officials, attitude towards clients, professionalism, service speed, simple and understandable procedures of receiving documents, speed of document processing,

availability and comfort of services, quality of consultations). No essential shortcomings in the services provided to taxpayers were exposed as a result of the study.

The assessment of the SRS services made by the SRS clients revealed the following tendencies:

- the taxpayers – legal entities – in general were more reserved in their evaluation than the natural persons;
- in Riga the assessment of the SRS services was more cautious than in other Latvian regions.

Of all criteria the most positive estimate was given to the professionalism of the SRS staff, professional ethics, but less positively the speed of the client service. The most positive appreciation was given to the recent activities of the SRS in the area of EDS improvement.

Regarding the availability of information the majority of the interviewed clients indicated that their basic source of information is the SRS Internet site or consultations provided by the SRS specialists in presence or by phone. In reply to the question what kind of information they were missing most of all, the majority of the interviewed told that they would welcome more information about the updates and changes of legislative acts regarding the application of the amendments made in the legislation.

### 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 representatives of manufacturers of household goods regarding warranty repairs;
- with the representatives of Tax Consultant Association on the proposals for amendments to the legislation regarding VAT and excise duties, and restricting the use of cash in transactions;
- with the Latvian association of Certified Administrators of Insolvency Proceedings to discuss the proposals to the draft VAT law;
- with the representatives of Latvian Transit Business Association on issues regarding the application of VAT to the service of returning the discharged railway cars;
- with the Latvian Chamber of Trade and Industry and Latvian Confederation of Employers on cooperation issues;
- with the cash register, cash system, specialised equipment or device maintenance service providers, also with Latvian Merchant Association, Latvian Food Traders Association, Latvian Fuel Traders Association, Latvian Employer Association, Latvian Association of Fuel Traders and Manufacturers and Latvian Chamber of Trade and Industry - on proposals to the legislative acts setting the procedures of the use of cash registers, cash systems specialised equipment and devices and technical requirements thereof;
- with Latvian Insurance Association, Latvian Association of Certified Auditors, Latvian Council of Certified Notaries Public (on expenses of business activities of the notaries), Latvian-Russian Cooperation Association (also on income gained abroad), Latvian Association of Outsourcing of Accounting Services, Latvian Chamber of Trade and Industry, Latvian Tax Consultant Association, Latvian Association of Construction Material Traders, Strategic Partnership of Construction Development, the Latvian Association of Authorised Car Dealers and Latvian Association of Hotels and Restaurants on the law on declaration of the property status and unreported income of natural persons;
- with the Association of Construction Material Producers on the application of VAT to construction services.

In the area of excise duties meetings were organised on the issues related to the monitoring of excise goods:

- with the National Association of Tobacco Goods Manufacturers on the implementation of the principle of monitoring and tracking of excise goods (cigarettes) *Track & Trace* in Latvia;

- with the Latvian Association of Fuel Traders, Latvian Association of Distributors of Alcoholic Beverages, the National Association of Tobacco Goods Manufacturers on illegal movement of excise goods in Latvia;

- with the Latvian Association of Fuel Traders in relation with legislative initiatives in the area of fuel circulation;

- with Agricultural Organisation, Latvian Traders Association, Latvian Association of Hotels and Restaurants on current issues of excise goods movement and administration of excise duty.

In the customs area meetings of the Consulting Council on Customs and Business 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” and Latvian Transit Business Association on the application of legislative acts in the customs area, implementation of electronic customs systems, organisational changes and other customs issues.

## 6. Priorities of 2013

In order to meet the revenue target figures determined by the law, to improve tax collection and protection of the society by implementing the SRS Performance and Development Strategy 2011-2013, the following priorities of performance were approved for 2013:

- 1) prevention of the loss of VAT revenues, reduction of non-compliance due to illegal employment and payment of “envelop wages”, and restriction of unregistered commercial activities by implementing a program of control activities;
- 2) improvement of taxpayer services by modernising and simplifying of the EDS;
- 3) combating of organised crime and corruption in the area of state revenue and customs;
- 4) implementation of customs control activities in priority areas: reduction of smuggling of excise goods, combating smuggling of narcotic and psychotropic substances.

Implementation of a number of development and support activities is planned in 2013 with the purpose of facilitating a successful performance of core functions:

- 1) improvement and modernisation of the SRS information systems including the development of core systems and SRS client environment, improvement of operational data availability and the comfort of the use of IT systems, adaptation of the SRS information systems for the implementation of *euro*, enlargement of the databases available to public etc.;
- 2) upgrading of the infrastructure at the eastern border by acquiring cargo scanner systems, platform and axle weighbridges, and implementation of cross-border cooperation program project Estonia-Latvia-Russia;
- 3) strengthening of the SRS capacity of combating of money laundering in line with the recommendations made by *Financial Action Task Force (Moneyval)*;
- 4) preparatory work in relation with the moving to the new complex of the SRS administrative buildings at 1 Talejas Str., in Riga;
- 5) organisation and implementation of the events dedicated to the 20<sup>th</sup> Anniversary of the SRS.

In order to meet the collection target figures of the tax revenues administered by the SRS and determined by the law, to improve tax collection and protection of the society, implementation of the SRS Performance and Development Strategy 2011-2013 and the fighting of the “shadow economy” will be continued in 2013.