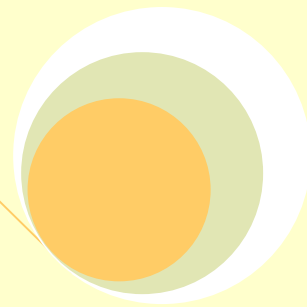
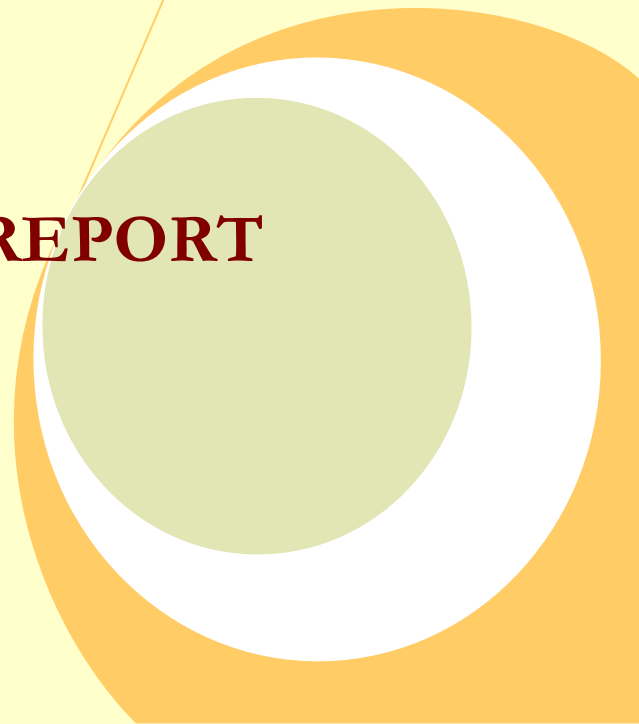


**REPUBLIC OF LATVIA  
STATE REVENUE SERVICE**



**2011 ANNUAL REPORT**



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Dear reader of the Report,

I hereby present to your attention the 2011 annual report of the State Revenue Service (SRS) that will inform you about the SRS's operational performance in 2011, the accomplishments last year and the measures planned for next year that aim to improve the Service's operations and enhance our mutual cooperation.

Overall, the year 2011 should be viewed positively. Last year, SRS was engaged in implementing the tasks defined in the SRS Operating and Development Strategy for 2011-2013 towards attaining the objectives put forward, whereas in ensuring that the tasks delegated to SRS by regulatory and legislative acts are fulfilled, SRS aspired towards maintaining the achievements to date, while working on moving towards future development and growth.

In 2011, SRS successfully continued to implement one of its most important tasks: improving the quality of client service. We managed to achieve this while continuing to operate within single-level structures and under conditions of centralisation, which allows us to serve our clients at the client service centre nearest to them; we also increased the number of staff of the SRS information hotline, 1898. In the area of customs, since 1 January 2011 merchants have had the opportunity to undergo customs clearance of cargo round the clock at all the designated locations for simplified customs clearance indicated in the permits for simplified procedure and permits for the use of the status of an authorised consignee and authorised consignor. In 2011, the Customs Clearance Standard and the Taxpayer Service Standard have been approved laying down the basic principles and requirements to be followed by all SRS officials when providing services to taxpayers.

The amendments to the Law on Value Added Tax that already came into effect in 2010 ensured that value added tax overpayments are returned to well-intentioned businesses as soon as possible, whereas the enhanced risk assessment system provided SRS with better opportunities to detect and prevent more speedily attempts by dishonest businesses to evade tax payments into the State budget to the full extent.

Significant effort was invested in 2011 in promoting full tax compliance by detecting and preventing the non-reporting of income and transactions, as well as fraud relating to value added tax. At a time when the economy is back on the path to recovery and stabilisation, it is especially important to achieve greater discipline in terms of tax compliance, which is why both preventive measures and control efforts were strengthened and improved.

The improvement in the results of administration measures by SRS, stabilisation of the state of the economy and changes to the binding regulatory enactments have positively affected the indicators of budget revenue administered by SRS: SRS-administered budget revenues in 2011 reached 4.06 billion lats. Although the amended Law on State Budget for 2011, which came into effect on 30 April 2011, the annual plan for the budget revenues administered by SRS was increased by LVL 103.95 million, or 2.7%, the revenue plan was fulfilled at a rate of 103.4%, i.e., the revenue target was exceeded by 0.13 billion lats. In comparison with 2010, 0.42 billion lats (or 11.4%) more were collected in revenue. The greatest surplus in revenue collected in 2011 was achieved for enterprise income tax (161.7% of the target), excise duty (101.1%), compulsory state social insurance contributions (102.6%) and personal income tax (106.9%).

An important aspect of SRS's operations this year was participation in government-developed measures for the stabilisation and improvement of the economic situation, including implementation of tasks as part of a plan to combat shadow economy that pertain to the competence of SRS, both in the area of taxation and customs.

The customs units of SRS, in close cooperation with other law enforcement agencies, successfully executed the tasks prescribed in the action plan of the State law enforcement authorities for escalating the combat against cigarette and alcohol smuggling and illegal sales thereof in Latvia.

In 2012, SRS will continue to implement the tasks specified in SRS's Operating and Development Strategy for 2011-2013 and has designated priorities that, on the one hand,

accentuate the combating against tax evasion and contraband and, on the other hand, focus on support for honest taxpayers by continuing to simplify tax compliance and improve SRS services.

In the name of the SRS staff and myself, I wish to extend my gratitude to all honest taxpayers, whose industriousness, knowledge, talents and courage to bring their ideas to fruition ensure and promote the development of our country.



**Nelija Jezdakova**  
SRS Director General

# **BACKGROUND INFORMATION**

## **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 authority in the realm of administration of taxes and customs affairs that is competitive in the EU and that promotes successful commercial activity and ensures the highest levels of security on the external EU border.

## **SRS values**

- **Honesty:** We are fair in the application of the law and in the adoption of decisions, above-board in our handling of clients, colleagues and partners.
- **Professionalism:** We have a high standard of expertise necessary for the execution of our professional duties, we are capable of applying it efficiently and soundly in our routine operations, and we constantly aspire to supplement it.
- **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 the execution of our official responsibilities, we are faithful to the interests of the State and the public, always treating them as a priority.

## **SRS strategic objectives**

- To encourage voluntary compliance with respect to tax and customs liabilities.
- 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 enhance the effectiveness of SRS operations.

## **SRS strategies**

### *SRS Operating and Development Strategy for 2011-2013*

Specifies the main objectives and the tasks for achieving these for the planning period 2011-2013 in order to realise the remit established by law as effectively as possible with the available resources, to improve SRS services, to enhance internal and external communication, to improve taxpayer discipline, to strengthen the control capacity and the combating of criminal offences and smuggling.

### *SRS Tax Compliance Strategy for 2010-2013*

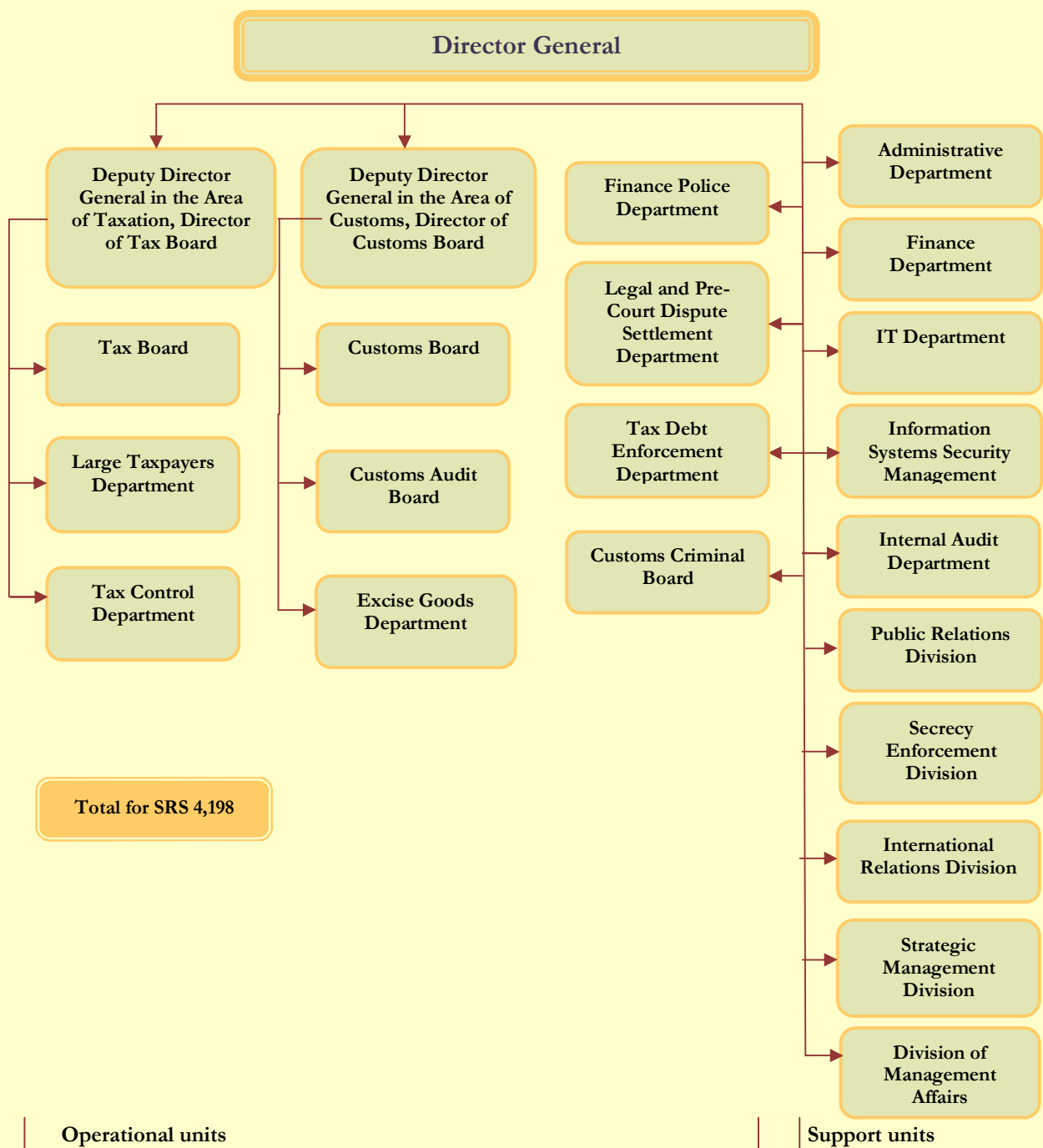
Developed in accordance with the recommendations and risk management procedure guidelines of the Fiscal Affairs Department of the International Monetary Fund.

The Strategy indicates the areas of activity and the main measures for reducing tax revenue risks.

In 2011, active efforts commenced to develop the SRS Personnel Management and Development Strategy for the next planning period. The SRS Personnel Management and Development Strategy for 2012-2014 will mark a new stage in organisational development, where the attainment of the main objectives will be based on staff competence, high professional standards and responsibility towards clients and the public.

The vision of the SRS Personnel Management and Development Strategy 2012-2014 anticipates a State Revenue Service that employs qualified and professional staff that participate in the achievement of the institutional objectives and are endowed with a high sense of responsibility and a conscientious attitude towards their work.

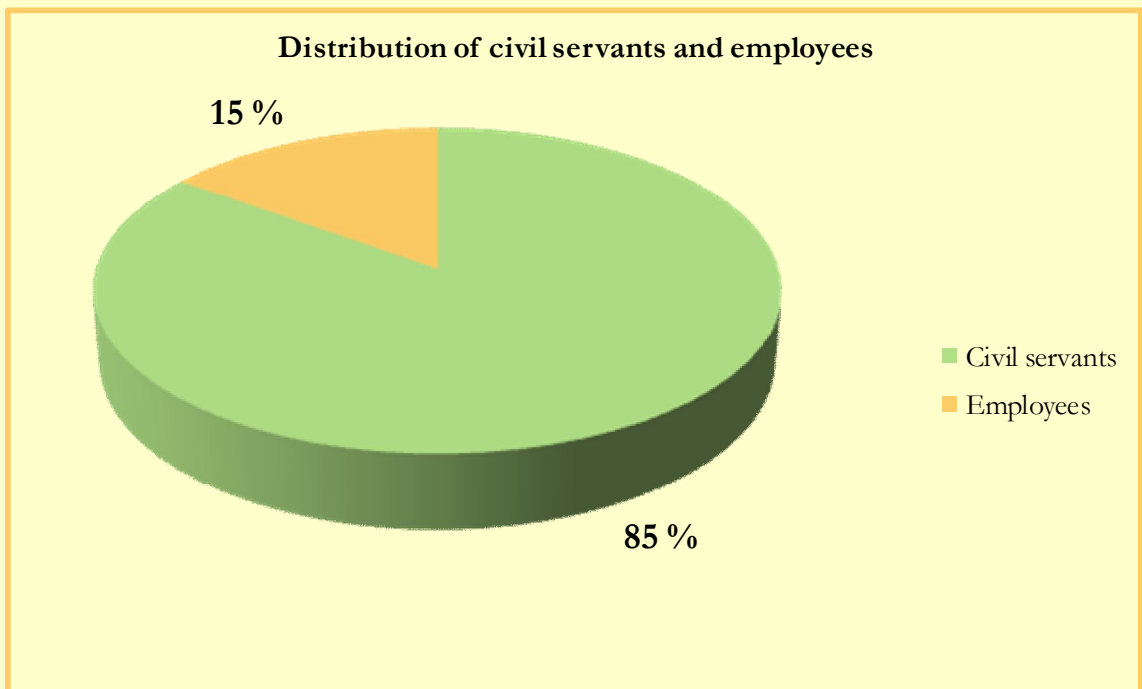
## SRS STRUCTURE



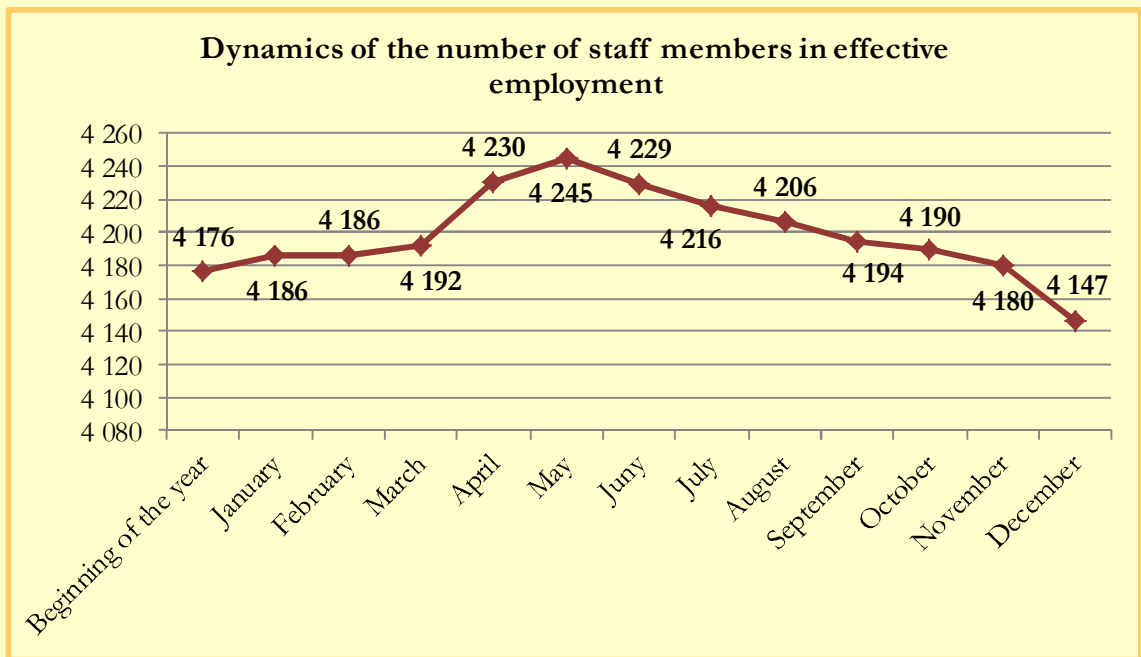
In 2011, the SRS structure consisted of 20 permanent units. Due to the changes made to the SRS By-Laws in 2011 and in compliance with the International Monetary Fund recommendation for improving SRS operations in the area of tax debt enforcement, the structure of SRS was modified in 2011 to include a new unit: the Tax Debt Enforcement Department, which comprises 272 staff positions. The IT Department, too, has been established as an autonomous unit with 126 staff positions (it was formerly a part of the Administrative Department).

## PERSONNEL

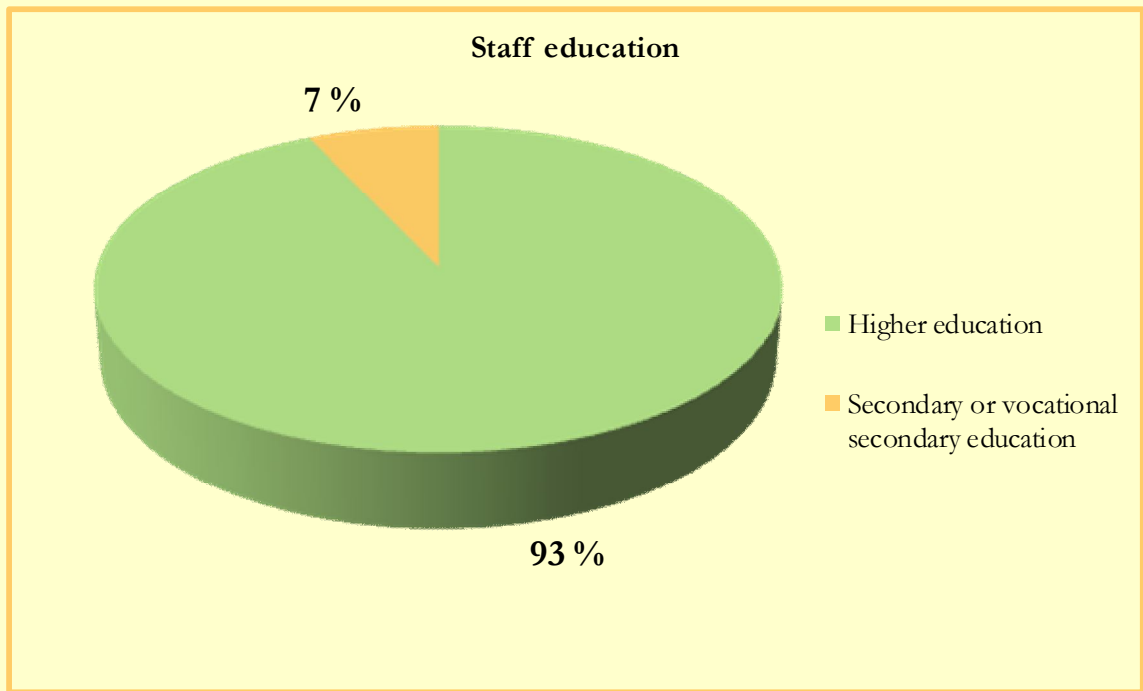
In 2011, there were an average of 4,198 filled staff positions at SRS, of which 3,554 were civil service positions and 644 were employee positions.



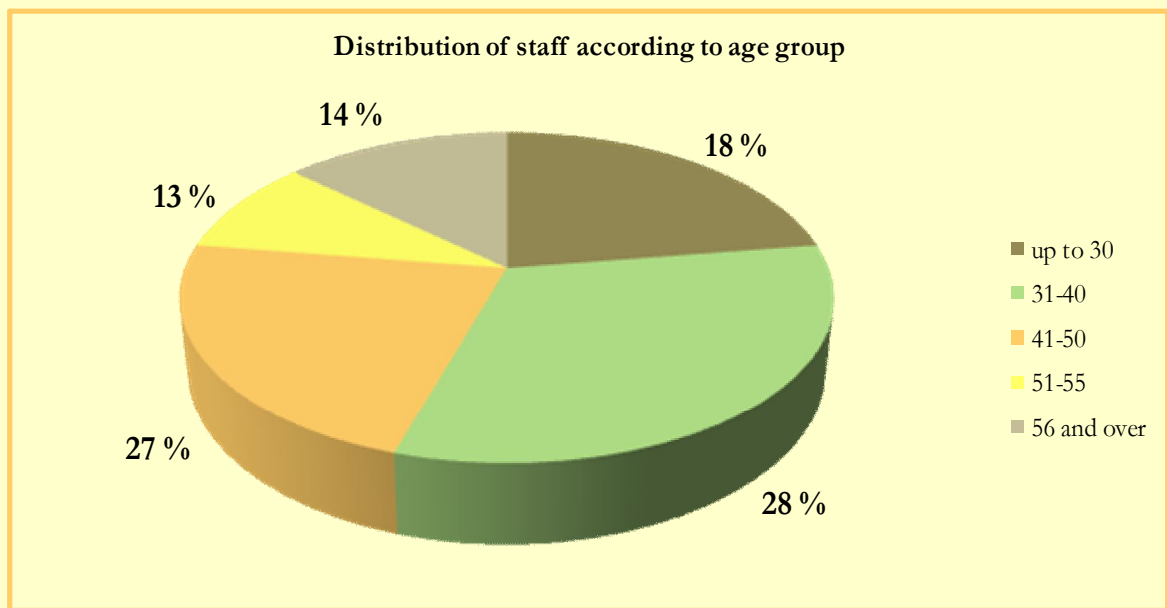
At the beginning of 2011, SRS had 4,176 active staff; by the end of the year, the number of active staff decreased by 29.



In late 2011, 93% of all SRS staff members (i.e., 3,858 civil servants and employees) held one or more higher education degree, while 4% of the staff had secondary vocational qualifications, and only 3% had completed secondary education.



In late 2011, of the 4,147 SRS civil servants and employees in active employment, 731 were aged under 30; 1,150 were aged between 31 and 40; 1,140 were aged between 41 and 50; 551 were aged between 51 and 55; and 575 were aged 56 or more.

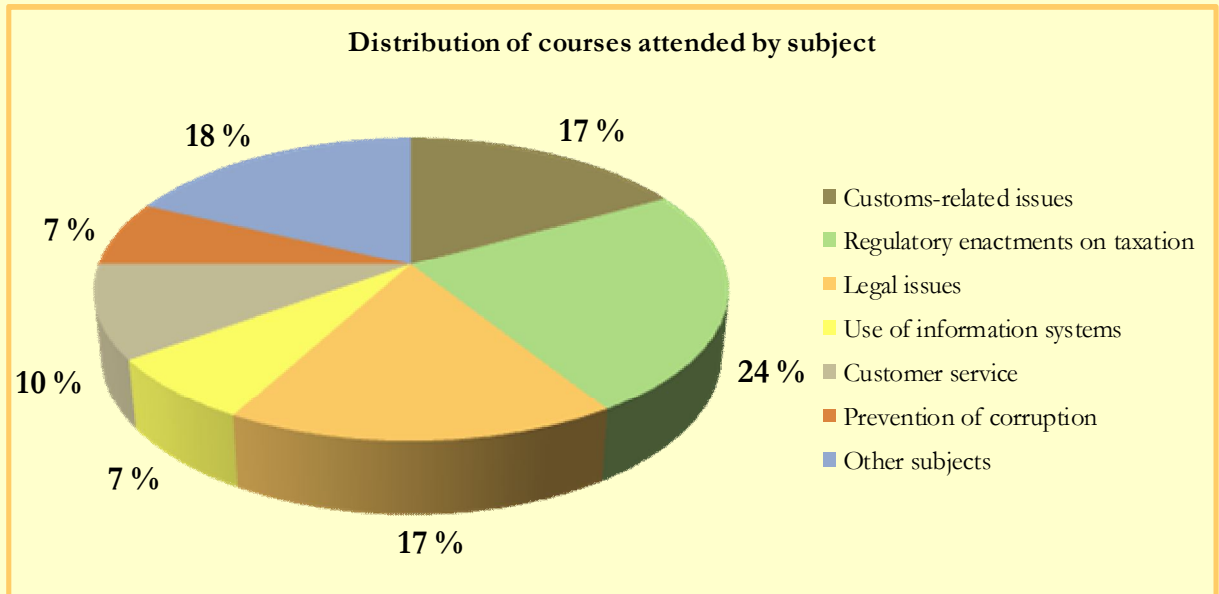


In 2011, SRS staff members participated in educational measures (courses, seminars) on 5,353 occasions, which is 11% more than in 2010. Internal training and seminars organised by SRS units were attended by a total of 2,174 participants, or 41%, while external training sessions organised by various providers and other State institutions were attended by 3,179 participants, or 59% of the total number of participants. Each participant spent an average of 8.8 hours on training.

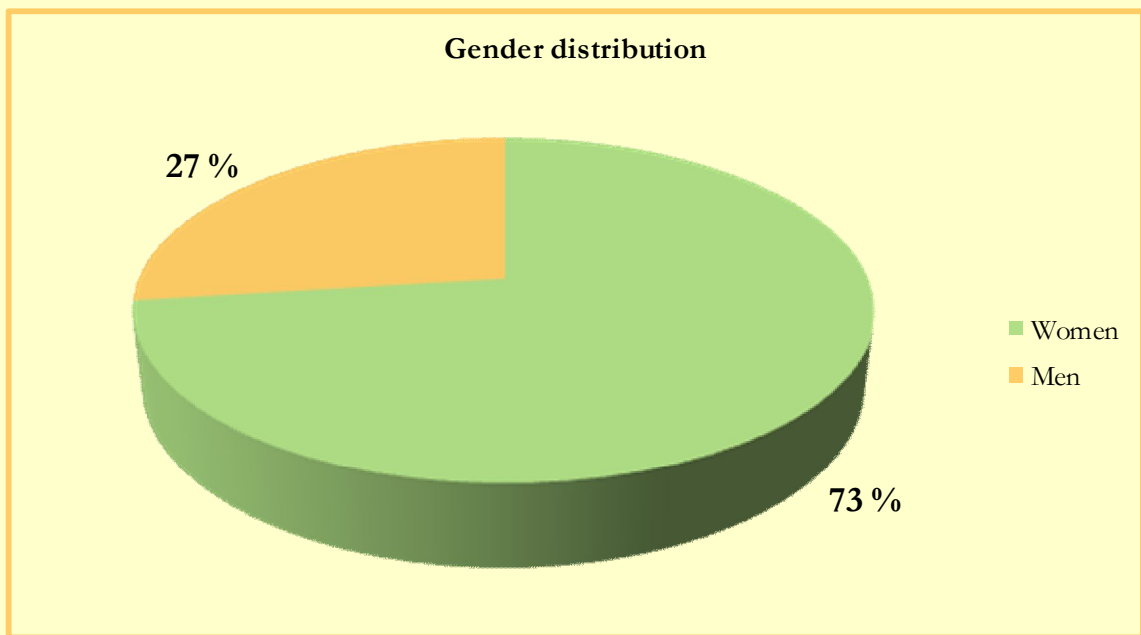
In 2011, 62%, or 2,605 SRS staff members, participated in at least one educational measure.

In 2011, training quality questionnaires were sent out to 3,255 participants; more than half (57%) of the participants submitted answers to the questionnaire. It was established in accordance with the assessment methodology that 77% of training participants were satisfied with the quality of the training.

Distribution of attendance of civil servant and employee professional qualification courses:



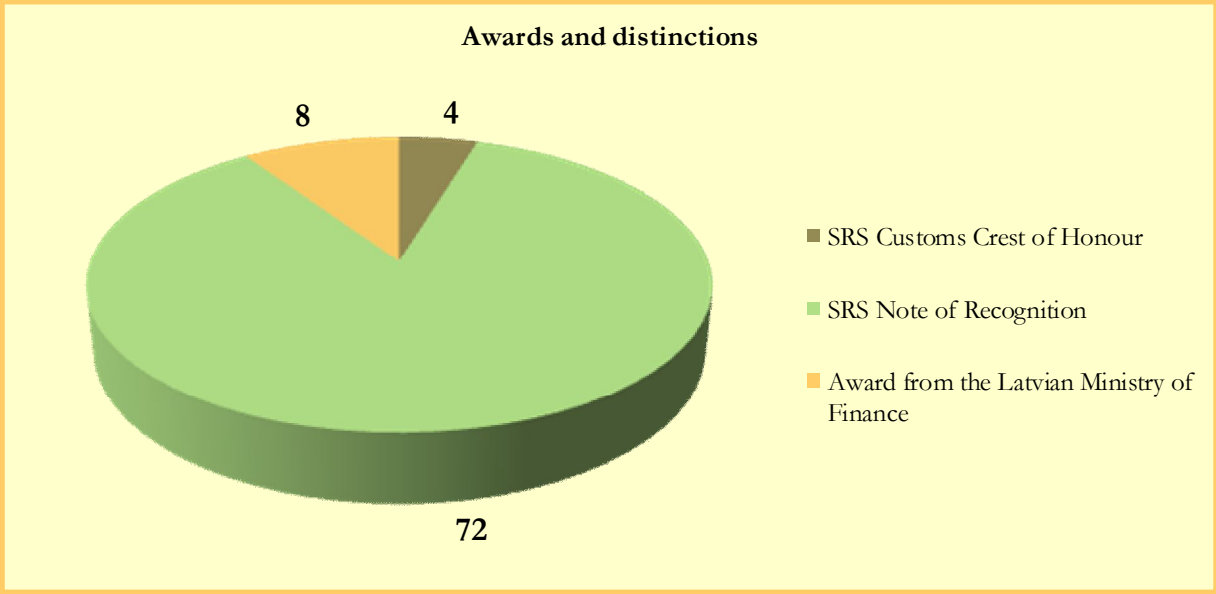
In late 2011, 3,036 women worked at SRS, or 73% of the entire staff, as well as 1,111 men.



In 2011, 246 civil servants and employees were released from their employment at SRS, including 43% of their own free will (Sec. 41 Para. 1a State Civil Service Law, SCSL), 17% due to a notice of termination by the employee (Sec. 100 Labour Law, LL), 12% upon mutual agreement (Sec. 41 Para. 3 SCSL), as well as due to other reasons provided for in the regulatory enactments.

In 2011, a total of 150 civil servants and employees were hired by SRS.

In 2011, 84 SRS staff members received work-related distinctions: a SRS Note of Recognition, a Ministry of Finance Note of Gratitude, Recognition or Honour, and a SRS Customs Crest of Honour.



In 2011, 60 SRS civil servants and employees received disciplinary penalties for violations, of which a reproof was issued to four staff members, a reprimand to 37 civil servants and employees, a reduction in salary to 15 staff members, and four staff members were dismissed from their position.

# **OPERATIONAL PRIORITIES IN 2011**

- To ensure the collection of the SRS-administered revenue in the most effective way in accordance with the Law on State Budget for 2011.
- To ensure the collection of additional revenues of LVL 45 million (EUR 64 million) in excess of the 2011 State budget target for SRS-administered tax and non-tax budget revenues by implementing measures to combat shadow economy:
  - promotion of full tax compliance by detecting and preventing the non-reporting of income and transactions and fraud relating to value added tax;
  - combating of illegal employment and cash-in-hand wage payments;
  - combating the smuggling of goods subject to excise duty and illegal trading activity;
  - detection and prevention of criminal offences in the area of State revenues.
- To provide support to taxpayers and customs clients and to improve services provided to clients by SRS.

# **PERFORMANCE IN 2011 BY AREA**

# FINANCIAL RESOURCES AND OPERATIONAL PERFORMANCE OF THE INSTITUTION

## State budget funding and spending thereof

According to the Law on State Budget for 2011, SRS has used the State budget grant in accordance with the approved estimates and financing plans of the basic budget programme, sub-programme, for the covering of the expenditures of resources (revenues) and planned expenditures.

### Total financing allocated to SRS and spending thereof in lats

Item No	Financial resources	In 2010 (actual execution)	In 2011	
			corroborated in the Law	(actual execution)
1.	<b>Financial resources for covering expenditures (total)</b>	<b>67 662 863</b>	<b>60 523 500</b>	<b>61 068 335</b>
1.1	grants	67 403 123	59 483 672	59 483 672
1.2	paid services and other own revenues	129 611	106 660	36 548
1.3	foreign financial assistance	130 129	933 168	1 548 115
2.	<b>Expenditure (total)</b>	<b>65 748 634</b>	<b>60 523 500</b>	<b>59 301 393</b>
2.1	maintenance expenditure (total)	63 692 395	55 372 829	54 497 697
2.1.1	subsidies and grants, including contributions to international organisations	12 119 648	-	-
2.1.2	other maintenance expenditure (total)	51 572 747	-	-
2.2	expenditure for capital investment	2 056 239	5 150 671	4 803 696

### Spending of the financial resources of the Twinning Light project by SRS in 2011, in LVL

Project title	Funding from foreign financial assistance		Co-funding from the State budget		Total spending
	allocated	spent	allocated	spent	
Consolidation and improvement of the internal investigative capacity of the national customs administration	14 808	14 808	-	-	14 808

### Spending of the financial resources of the European Regional Development Fund (ERDF) projects by SRS in 2011, in LVL

Project title	ERDF project financing		Co-funding from the State budget		Total spending
	allocated	spent	allocated	spent	
Implementation of an excise movement and control system (EMCS)	327 078	327 078	-	-	327 078

Development, improvement and maintenance of an electronic customs data processing system (ECDPS)	95 223	95 041	-	-	95 041
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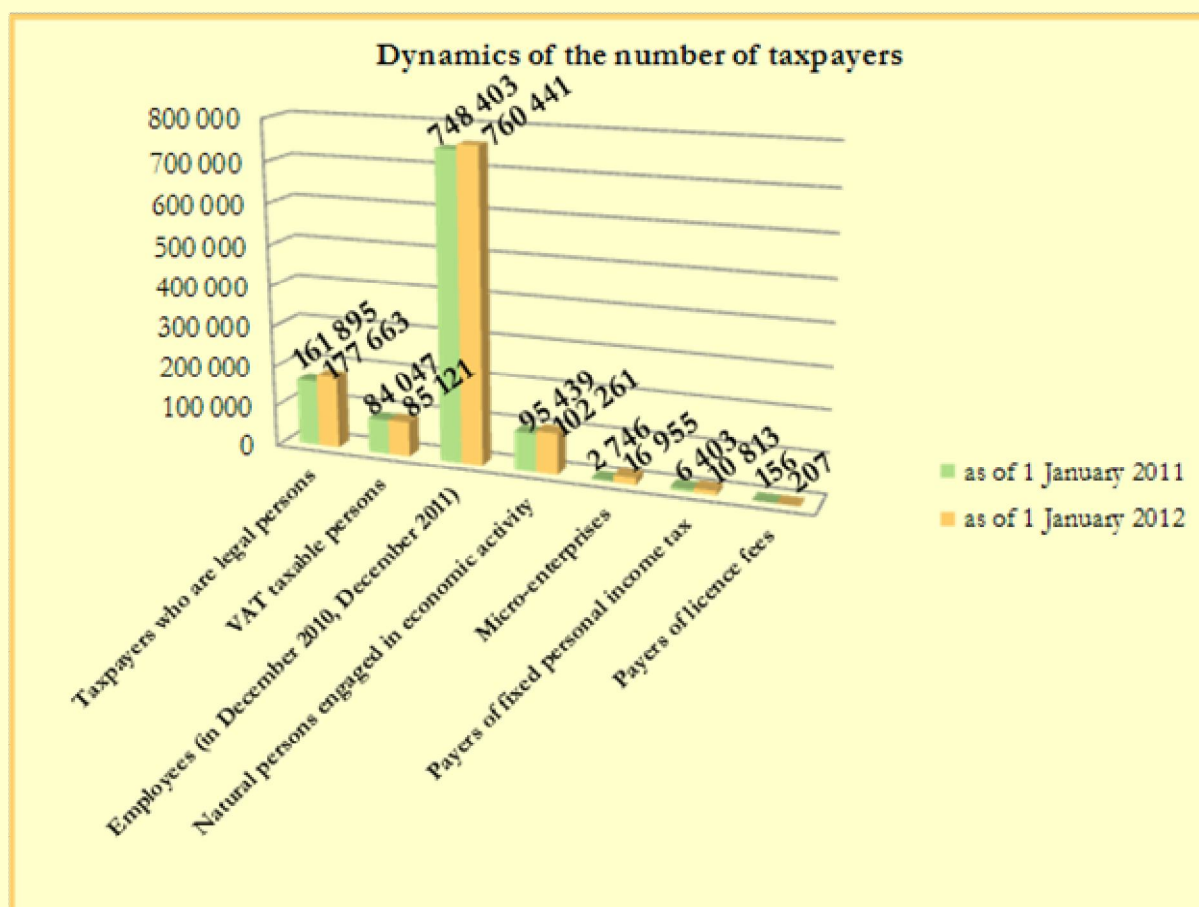
**Spending by SRS of the financial resources allocated as part of agreements between the European Commission (with participating Member States) and tobacco manufacturers in 2011, in LVL**

Project title	Funding from foreign financial assistance		Co-funding from the State budget		Total spending
	allocated	spent	allocated	spent	
Funding allocated to SRS by Japan Tobacco International, British American Tobacco and Imperial Tobacco Limited	933 168	191 408	-	-	191 408*

\* The surplus of the financial resources allocated as part of agreements between the European Commission (with participating Member States) and tobacco manufacturers is intended to be spent in 2012 by acquiring a stationary customs scanner/gate and specialised equipment for combating financial crimes.

## TAX ADMINISTRATION

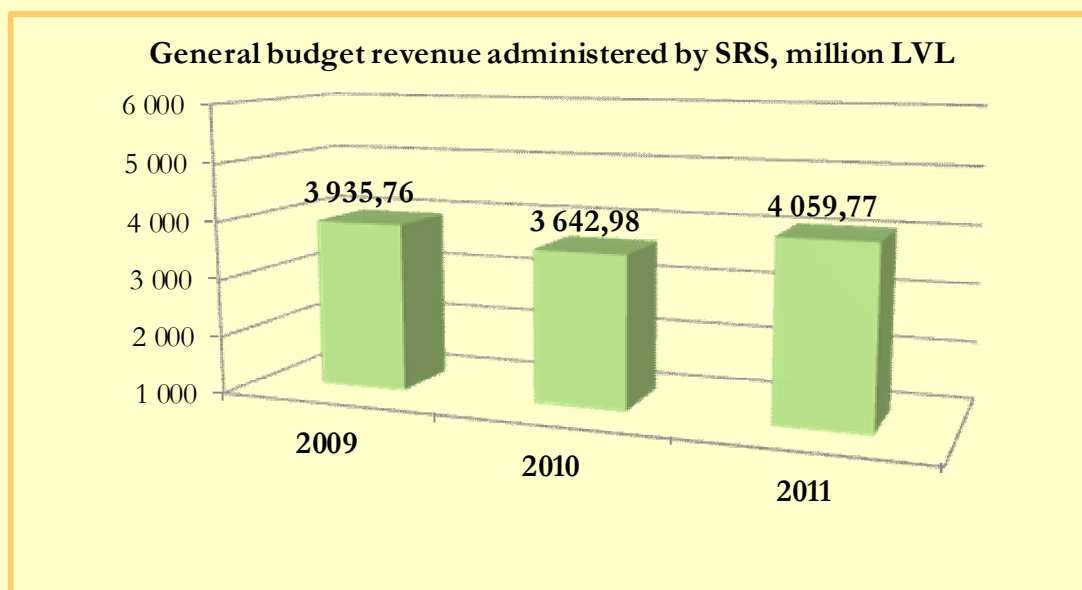
### Number of taxpayers



## Performance with respect to SRS-administered budget revenue

The SRS-administered budget revenue in 2011 was 4.06 b lats. Although the amended Law on State Budget for 2011, which came into effect on 30 April 2011, the annual plan for the budget revenues administered by SRS was increased by LVL 103.95 m, or 2.7%, the revenue plan was fulfilled by 103.4%, i.e., the revenue target was exceeded by 0.13 b lats.

In comparison with 2010, LVL 0.42 b (or 11.4%) more was collected in revenue. The indicators of budget revenue administered by SRS have been affected by an improvement in the results of administration measures by SRS, the stabilisation of the state of the economy as well as changes to the binding regulatory enactments.



The following revenues exceeded the targets in 2011: from enterprise income tax (161.7%), from excise duty (101.1%), from social insurance contributions (102.6%), from personal income tax (106.9%), from natural resources tax (100.4%), from customs duty (108.1), from lottery and gambling tax (100.8%), from passenger car and motorcycle tax (136.4%), from electricity tax (135.9%), from State fees and office fees (102.1%), from monetary fines and penalties (112.9%) and other non-tax revenues (207.1%). In turn, the following revenue underperformed with respect to the 2011 revenue plan: from value added tax, vehicle tax, enterprise passenger vehicle tax, revenue from the payment by the Bank of Latvia, dividend revenue (revenue from the use of State (local government) capital), revenue from the sale of State-owned greenhouse gas emission units.

The economic indicators for 2011 demonstrate a growth in the Latvian economy and a gradual recovery of the global economy from the rapid downturn, which is also confirmed by a 5.5% increase in the gross domestic product (seasonally unadjusted data).<sup>1</sup>

<sup>1</sup> Data by the Central Statistical Bureau

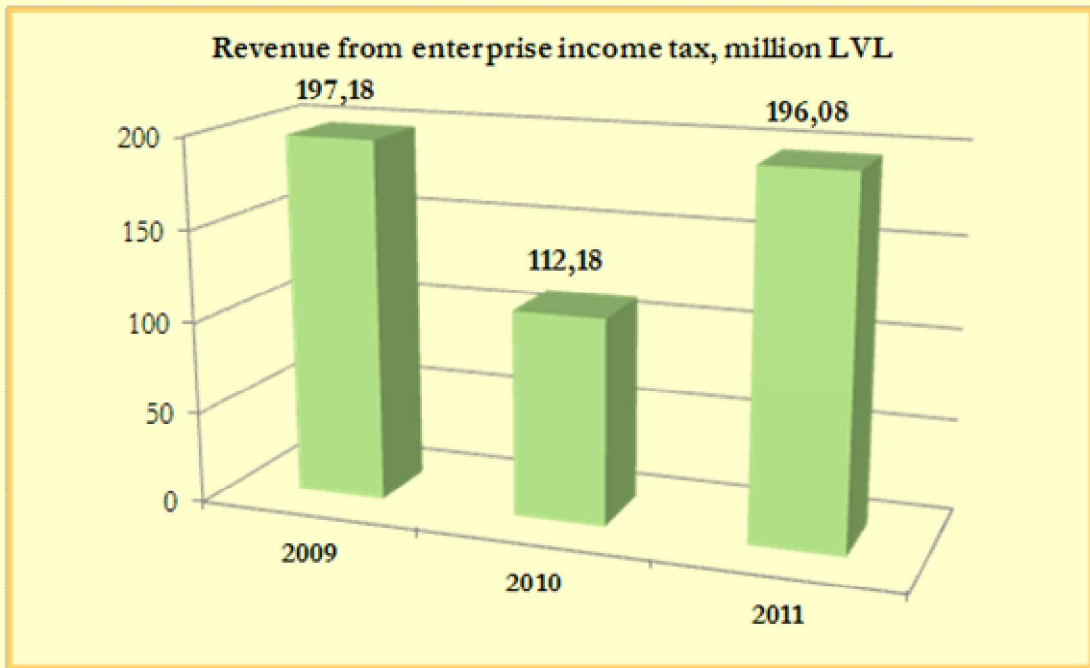
## SRS-administered budget revenues in distribution by tax type

Types of tax	Revenue target for 2011 (million LVL)	Revenue (million LVL)		Difference (2011 vs. 2010)		Execution rate of the 2011 revenue plan	
		In 2010	In 2011	mill. LVL	%	mill. LVL	%
<b>Tax revenue</b>	3 673,55	3 372,56	3 830,61	458,05	13,6	157,06	104,3
Enterprise income tax	121,29	112,18	196,08	83,90	74,8	74,79	161,7
Value added tax	972,10	825,25	958,65	133,41	16,2	-13,45	98,6
Lottery and gambling tax	476,25	458,06	481,52	23,47	5,1	5,28	101,1
Social insurance contributions	1 256,57	1 157,47	1 289,13	131,65	11,4	32,56	102,6
Personal income tax	738,63	777,64	789,86	12,22	1,6	51,23	106,9
Natural resources tax	10,34	8,76	10,38	1,62	18,5	0,04	100,4
Customs duties	19,30	17,27	20,87	3,60	20,9	1,57	108,1
Lottery and gambling tax	12,14	11,62	12,24	0,62	5,3	0,10	100,8
Passenger car and motorcycle tax	4,00	3,55	5,45	1,90	53,5	1,46	136,4
Vehicle tax	45,29		44,17			-1,11	97,5
Company car tax	17,00		12,14			-4,86	71,4
Electricity tax	0,64	0,67	0,87	0,20	30,4	0,23	135,9
Micro-enterprise tax		0,03	9,14	9,12			
Licence fees		0,07	0,1	0,04	58,1		
<b>Non-tax revenue</b>	252,22	270,42	229,17	-41,25	-15,3	-23,06	90,9
Revenue from the payment by the Bank of Latvia	3,57	11,16	3,56	-7,60	-68,1	-0,01	99,8
Revenue from dividends (revenue from the use of State [local government] capital)	129,19	108,12	115,51	7,39	6,8	-13,68	89,4
State fees and office fees	67,52	88,37	68,96	-19,41	-22,0	1,43	102,1
Fines and penalties	12,20	10,01	13,78	3,77	37,6	1,58	112,9
Revenue from the sale of greenhouse gas emission units owned by the State	26,53	36,99	0	-36,99		-26,53	
Other non-tax revenue	13,21	15,78	27,36	11,58	73,4	14,15	207,1
<b>Total</b>	<b>3 925,77</b>	<b>3 642,98</b>	<b>4 059,77</b>	<b>416,80</b>	<b>11,4</b>	<b>134,00</b>	<b>103,4</b>

## Revenue performance by type of tax

### Enterprise income tax (EIT)

EIT revenue in 2011 was LVL 196.08 m, which is LVL 83.9 m, or 74.8%, more than in 2010.

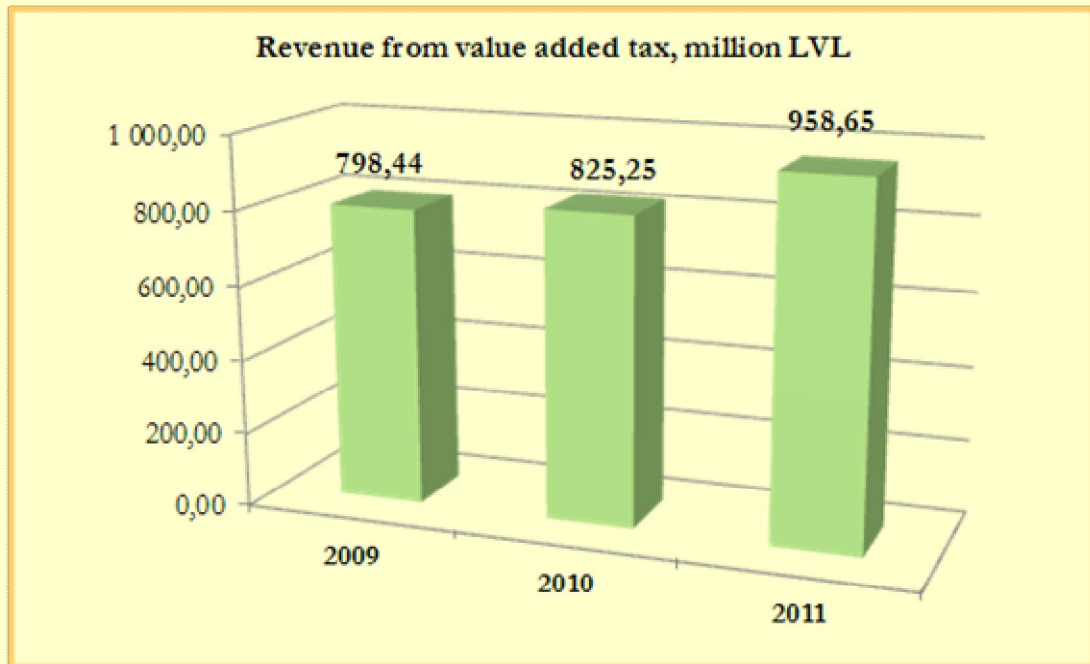


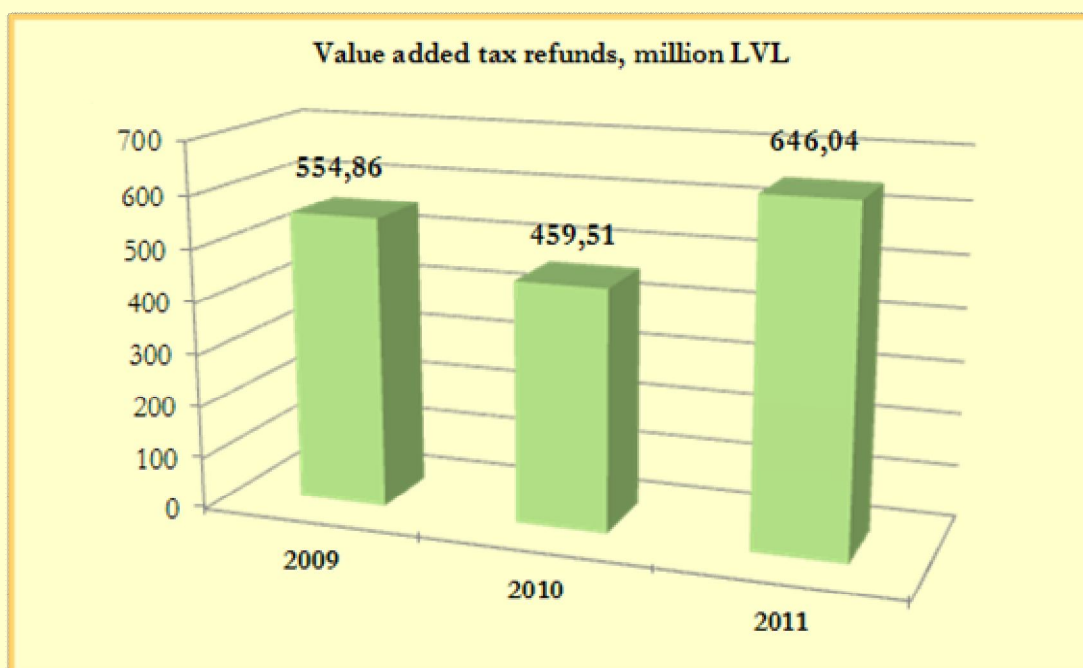
Considering the fact that EIT revenue is assessed and paid based on the results of economic activity for the preceding year, the stabilisation of the economic situation in 2010 positively affected the volume of revenue in 2011.

**Value-added tax (VAT)**

VAT revenue in 2011 was LVL 958.65 m, which is LVL 133.41 m, or 16.2%, more than in 2010.

The VAT revenue plan fulfilment rate was 98.6% in 2011.





In 2011, VAT refunds worth LVL 646.04 m were made, which is LVL 186.53 m, or 40.6%, more than in 2010.

In 2011, VAT refunds were made within an average of 22 days.

Decisions to refuse unjustified VAT refunds were made to the tune of LVL 53.32 m.

### **Personal income tax (PIT)**

PIT consists of a payroll tax, which is assessed and paid by the employer on behalf of the employee, a tax on income from economic activity, a fixed income tax on income from economic activity, a tax on income from capital, including a capital gains tax, and licence fees on engagement in certain types of economic activity. PIT is also paid in the form of micro-enterprise taxes.

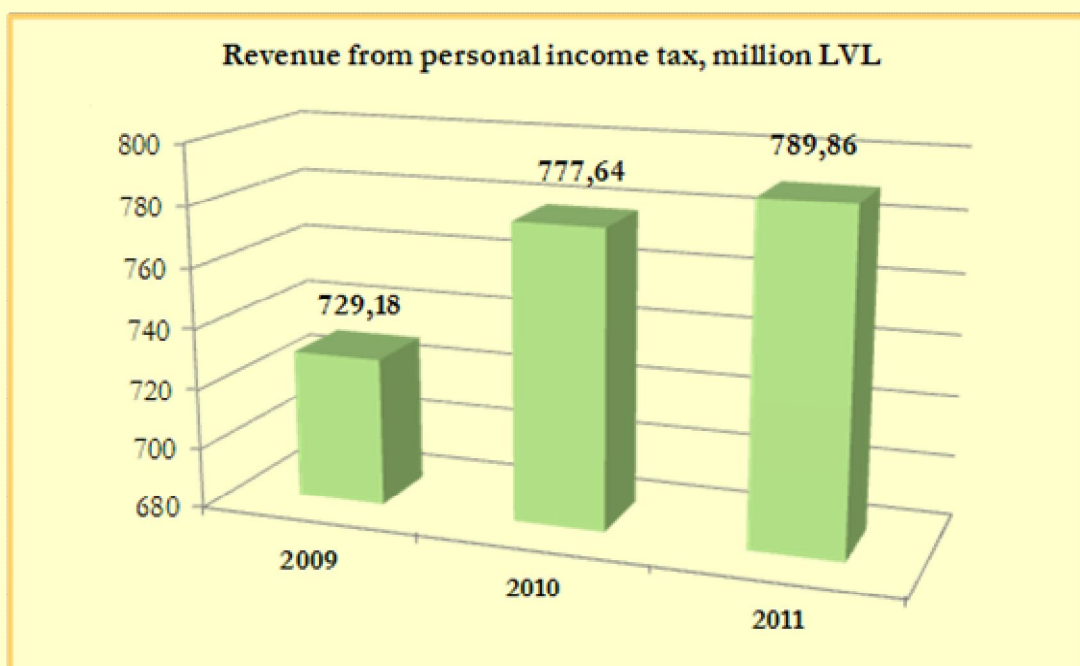
PIT is paid by natural persons who are residents and who have earned income in the Republic of Latvia and/or abroad during the taxation period, natural persons who are non-residents and who have earned income in the Republic of Latvia during the taxation period, individual enterprises, owners of farms and fishery farms who during the taxation period have earned income that has not been subject to enterprise income tax.

PIT revenue in 2011 was LVL 789.86 m, which in comparison to the preceding year is 1.6%, or LVL 12.22 m, more.

The PIT revenue plan fulfilment rate was 106.9% in 2011.

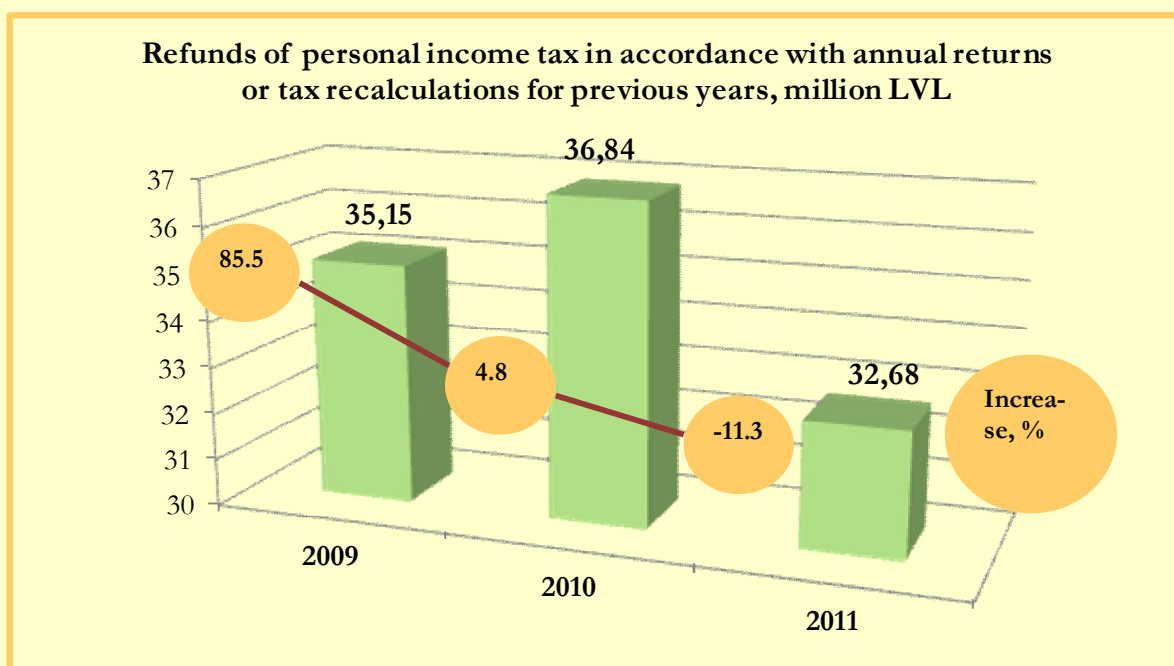
The volume of PIT was affected by changes to legislation that took effect as of 1 January 2011:

- the PIT rate was lowered from 26% to 25%;
- the non-taxable minimum was increased from LVL 35 to 45 per month, and the relief for dependants was increased from LVL 63 to 70 per month;
- the minimum monthly wage was increased from LVL 180 to 200 per month.



In 2011, PIT refunds reached LVL 32.68 m, and the volume of refunds decreased by 11.3% compared to 2010.

The reduction in the volume of PIT refunds can be explained by the fact that the maximum amount of eligible expenditure for medical expenses and education in the annual income declaration was lowered to LVL 150 in 2010 (it was LVL 300 in 2009).



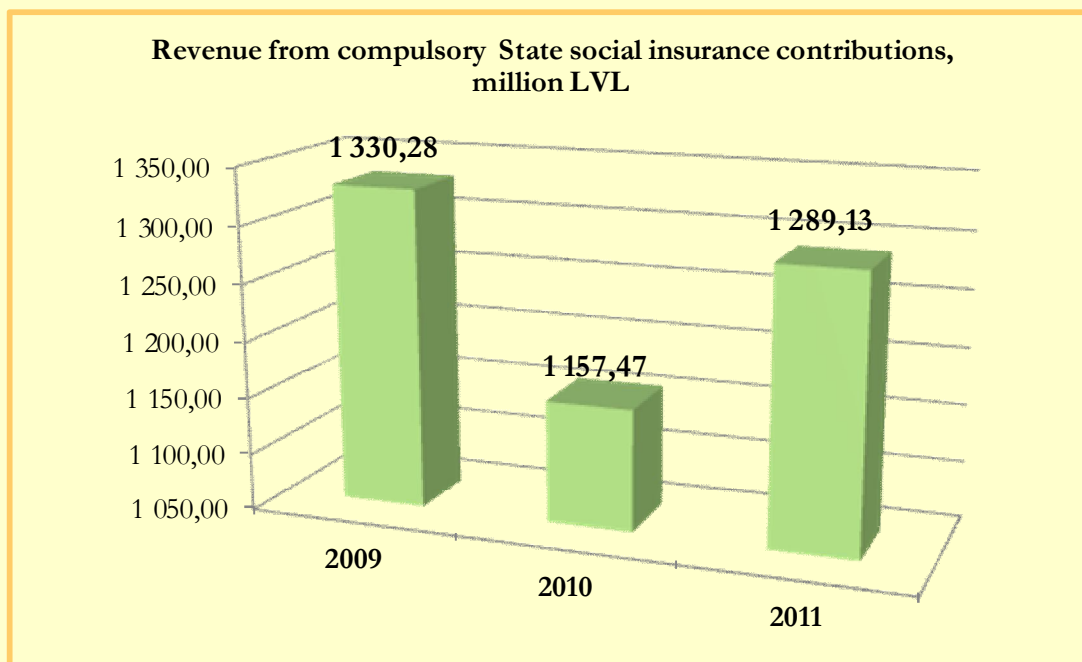
### Compulsory State social insurance contributions (CSSIC)

CSSICs are made by:

- employers;
- self-employed individuals;

- inland employees of a foreign employer and foreign employees of a foreign employer;
- CSSICs are also made in the form of micro-enterprise taxes.

CSSIC revenue in 2011 was LVL 1,289.13 m. In comparison with the corresponding period of the preceding year, the revenue increased by 11.4%, or LVL 131.65 m.



In 2011, the revenue plan of compulsory State social insurance contributions was fulfilled by 102.6%.

### **Micro-enterprise tax**

Payers of micro-enterprise tax are:

- natural persons registered with SRS as persons carrying out economic activity;
- individual merchants;
- individual enterprises, farms or fishery farms;
- limited liability companies (LLCs).

Payers of micro-enterprise tax do not divide the micro-enterprise tax into types of tax but make a comprehensive tax payment to the budget.

Natural persons registered with SRS as persons carrying out economic activity that are payers of micro-enterprise tax allocate the payment of micro-enterprise tax into the budget as follows:

- 65% into the compulsory payments account;
- 35% into the personal income tax account.

The payment of micro-enterprise tax for an individual merchant, a newly founded individual enterprise that plans to apply the provisions of the Law on Personal Income Tax in a period during which it will not be a payer of micro-enterprise tax, as well as an individual enterprise that was a payer of personal income tax in the preceding taxation period, is allocated as follows:

- 0.1% into the risk fee account;
- 65% into the compulsory payments account;
- 34,9% into the personal income tax account.

The payment of micro-enterprise tax for an LLC, a newly founded individual enterprise that, in accordance with the Annual Accounts Law, has chosen to prepare annual accounts, as well as an individual enterprise that was a payer of enterprise income tax in the preceding taxation period, is allocated as follows:

- 0.1% into the risk fee account;
- 65% into the compulsory payments account;
- 30% into the personal income tax account.
- 4,9% into the enterprise income tax account.

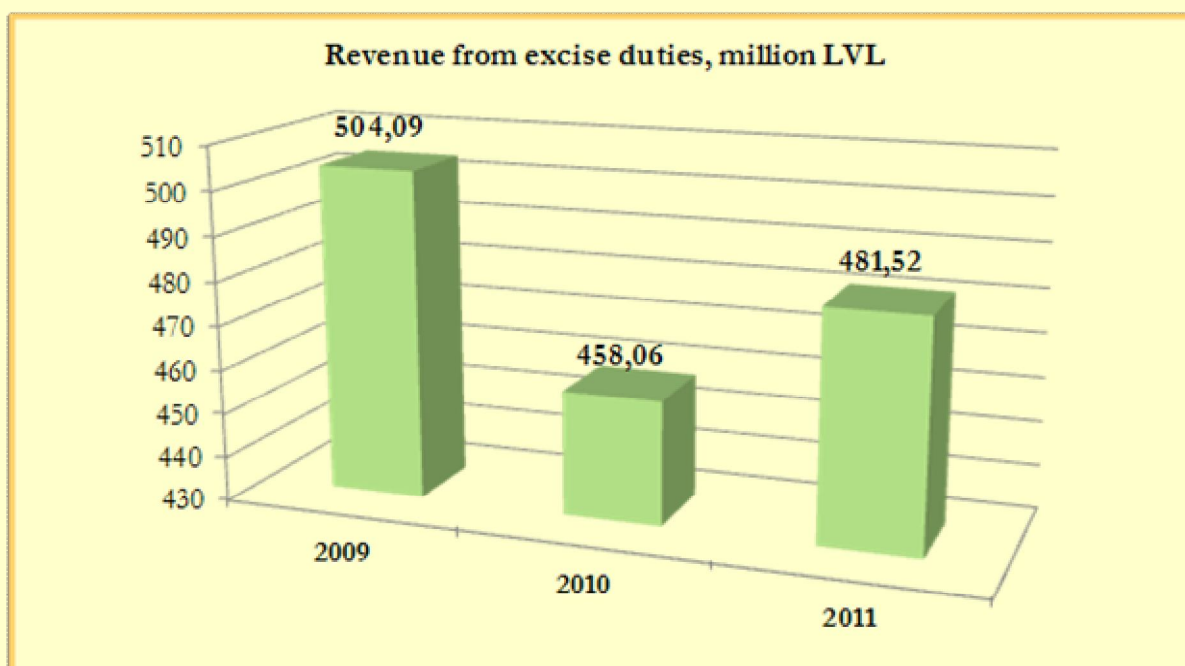
## **Excise duty**

Payers of excise duty are:

- persons who import excisable goods into the Republic of Latvia for release for free circulation from foreign countries that are not EU Member States (from third countries);
- persons who have the status of an approved excisable goods warehouse keeper, who receive excisable goods from another EU Member State by applying to them deferred payment of excise duties and who hold a special permit (licence);
- persons who do not have the status of an authorised excisable goods warehouse keeper, who receive excisable goods from another EU Member State or from a registered consignor and an authorised warehouse keeper within the Republic of Latvia by applying to them deferred payment of excise duties and who hold a special permit (licence) of a registered consignee;
- persons who do not have the status of an authorised excisable goods warehouse keeper, who receive excisable goods from another EU Member State or from a registered consignor and an authorised warehouse keeper within the Republic of Latvia, who hold a special permit (licence) of a short-term registered consignee;
- other persons who receive excisable goods in the Republic of Latvia from another EU Member State that have already been released for free circulation in another Member State;
- persons who do not have the status of an authorised excisable goods warehouse keeper, who transfer goods to an excisable goods warehouse within the Republic of Latvia or another Member State or supply excisable goods to a registered consignee or a short-term registered consignee within the Republic of Latvia or another Member State, by applying to them deferred payment of excise duties and who hold a special permit (licence) of a registered consignor.

Excise duty revenue in 2011 was LVL 481.52 m, which is LVL 23.47 m, or 5.1%, more than in 2010.

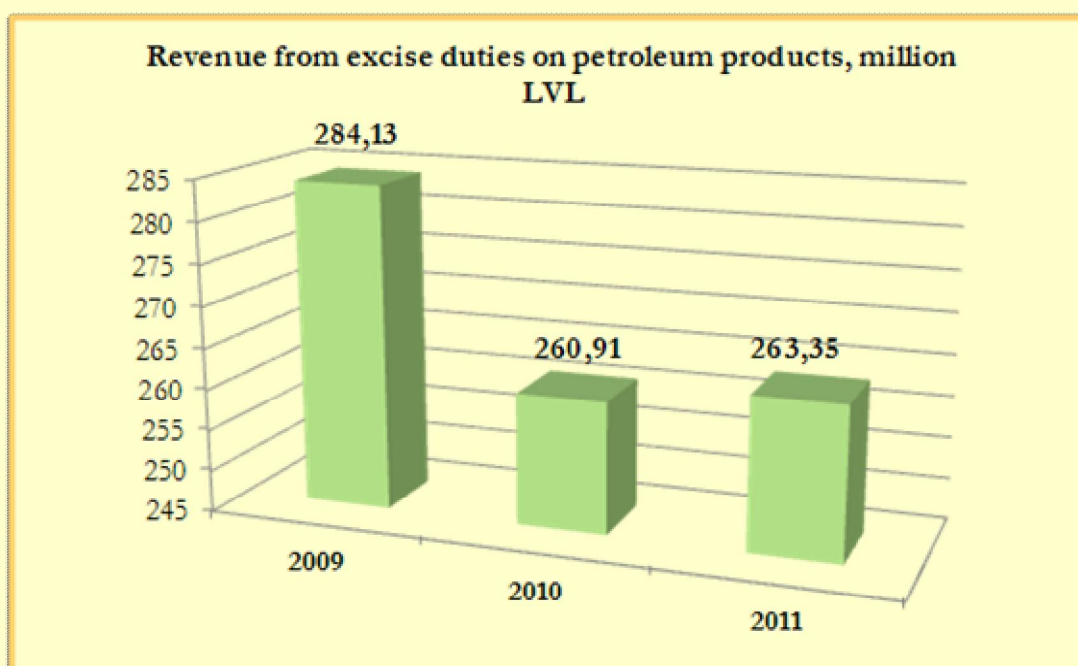
The fulfilment rate of the excise duty revenue plan was 101.1% in 2011.



### *Petroleum products*

In 2011, excise duties of LVL 263.35 m were collected on petroleum products, which is LVL 2.44 m, or 0.9%, more than in 2010. The fulfilment rate of the annual revenue plan was 98.5%.

In 2011, compared to 2010, excise duty revenue from diesel fuel (incl. marked diesel fuel and diesel fuel with biodiesel additives) has increased by 3.5%, or LVL 5.65 m, whereas excise duty revenue from unleaded petrol (including with ethanol additives) has decreased by LVL 3.56 m, or 3.6%.



The following factors influenced the revenue from excise duty on petroleum products in 2011:

- increase in excise duty rates. Starting 1 January 2011, the rate of excise duties was increased for unleaded petrol with ethanol additives (the concentration of absolute

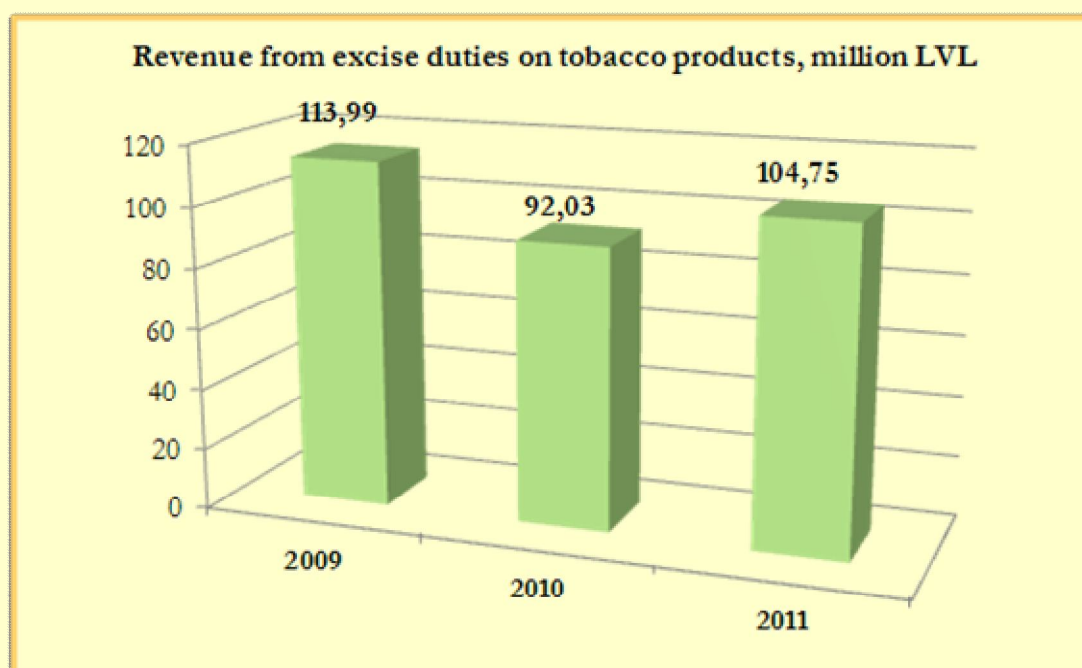
alcohol equals 5% vol. of the total product quantity), which became aligned with the rate on unleaded petrol, and for diesel fuel where biodiesel or rapeseed oil constitutes from 5% and up to (not including) 30% vol. of the total quantity of the petroleum product, which became aligned with the rate of diesel fuel. As of 1 June 2011, the excise duty rate was increased for all types of petrol;

- the unchanging consumption of petroleum products over the years;
- changes in the structure of consumption of petroleum products (fuel): in 2011, compared with 2010, the share of diesel fuel increased in the total consumption structure, while the share of petrol declined;
- the quantity of fuel issued to agricultural operators, which is exempted from the payment of excise duty at the time of sale (until 1 July 2010, a rebate system was used in Latvia);
- an increase in excise duty arrears. The formation of new indebtedness has an adverse effect on revenue, due to which a number of taxpayers had their licences revoked in 2011 for operations with petroleum products, and the security submitted by them is lesser than the amount of duty assessed. Excise duty debts as of 1 January 2012, compared to 1 January 2011, grew by LVL 7.41 m, or 69.6%. The greatest volume of debt is attributable to petroleum products.

### *Tobacco products*

In 2011, LVL 104.75 m was collected for tobacco products, which is LVL 12.73 m, or 13.8%, more than in 2010.

The tax revenue plan was fulfilled by 107.5%, i.e., LVL 7.30 m more was collected in excess of the target.



The changes in the volume of cigarettes placed for consumption in Latvia directly affect the revenue from excise duty on tobacco products, as in 2011 they accounted for 95.9% of all revenue from excise duty on tobacco products. Although the quantity of cigarettes placed for

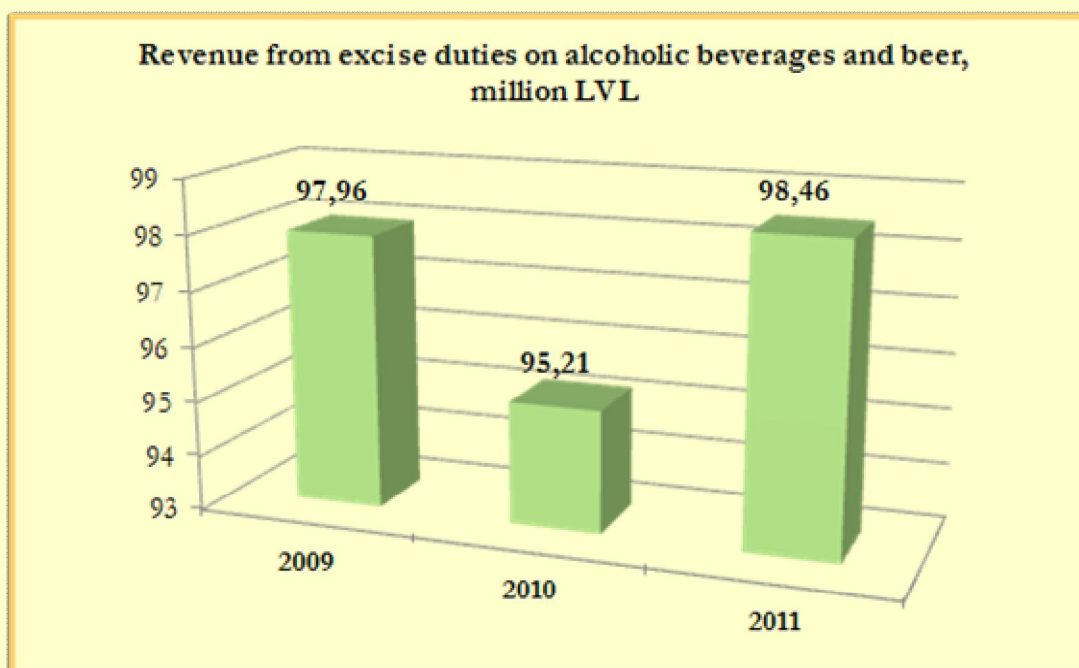
consumption in 2011 increased by 7.7% compared to the preceding year, its share of the revenue from excise duty on tobacco products dropped by 1.8 percentage points.

The raising of the excise duty rate 2.2 times as of 1 January 2011 (from 11 to 24 lats per 1,000 count) and by another 8.3% as of 1 July (up to 26 lats per 1,000 count) ensured a 2.3-time increase in revenues from excise duty from cigars and cigarillos, even though the quantity of cigars and cigarillos placed for consumption in 2011 decreased by 7% in comparison with 2010.

### *Alcoholic beverages and beer*

In 2011, excise duties of LVL 98.46 m were collected on alcoholic beverages and beer, which is LVL 3.24 m, or 3.4%, more than in the corresponding period of the preceding year.

The tax revenue plan for excise duty on alcoholic beverages (not counting beer) was fulfilled by 103.2%, i.e., LVL 2.48 m more was collected in excess of the target, whereas the revenue plan for beer was fulfilled by 99.1%, with LVL 0.16 m being collected below the target.



The following factors influenced the revenue from excise duty on alcoholic beverages in 2011:

- the raising of the excise duty rate from 1 June 2011 in the category of other alcoholic beverages from LVL 890 to 940 per 100 litres of absolute alcohol (86.3% of the total revenues from excise duty on alcoholic beverages, except beer);
- the increase of 2.4% in alcoholic beverages placed for consumption in 2011 compared to 2010.

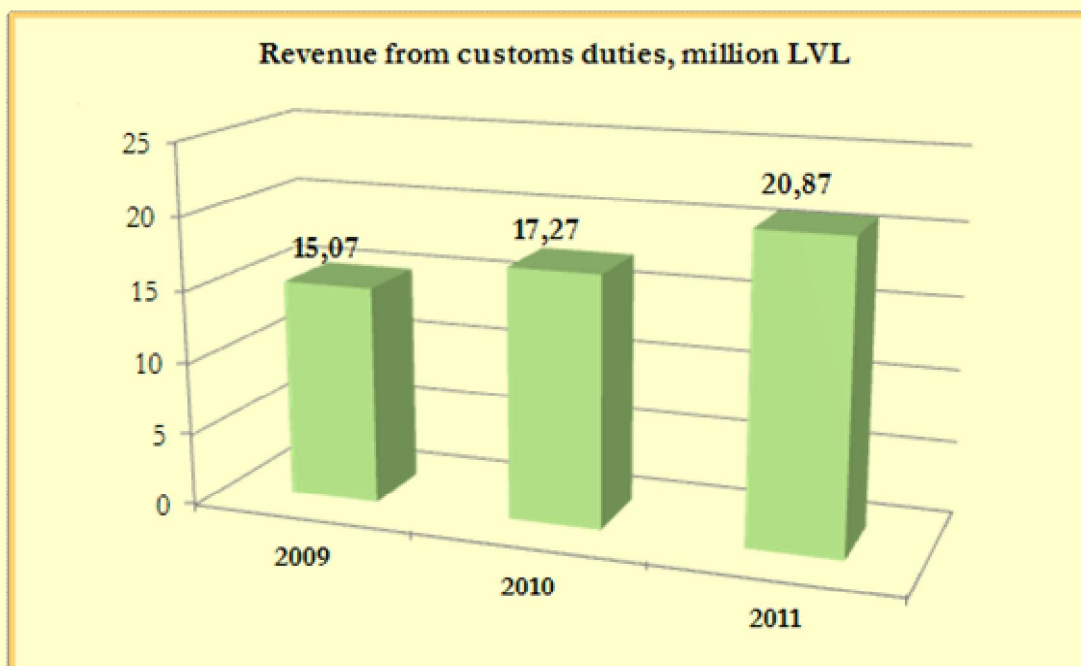
The increase in the revenues from excise duty on beer in 2011 compared to 2010 is related to a 4.5% increase in beer placed for consumption. However, the rate at which consumption has been growing has slowed, which explains the failure to fulfil the revenue plan.

### **Customs duties**

Revenues from customs duties in 2011 were LVL 20.87 m, and the revenue plan was fulfilled by 108.1%. In comparison with 2010, the revenue increased by LVL 3.60 m, or 20.9%.

The increase in the revenue from customs duties is connected to a growth in imports from non-member states of the EU. According to data provided by the Central Statistical Bureau,

compared with 2010, in 2011 the volume of imports from non-member states of the EU climbed by 25.5%



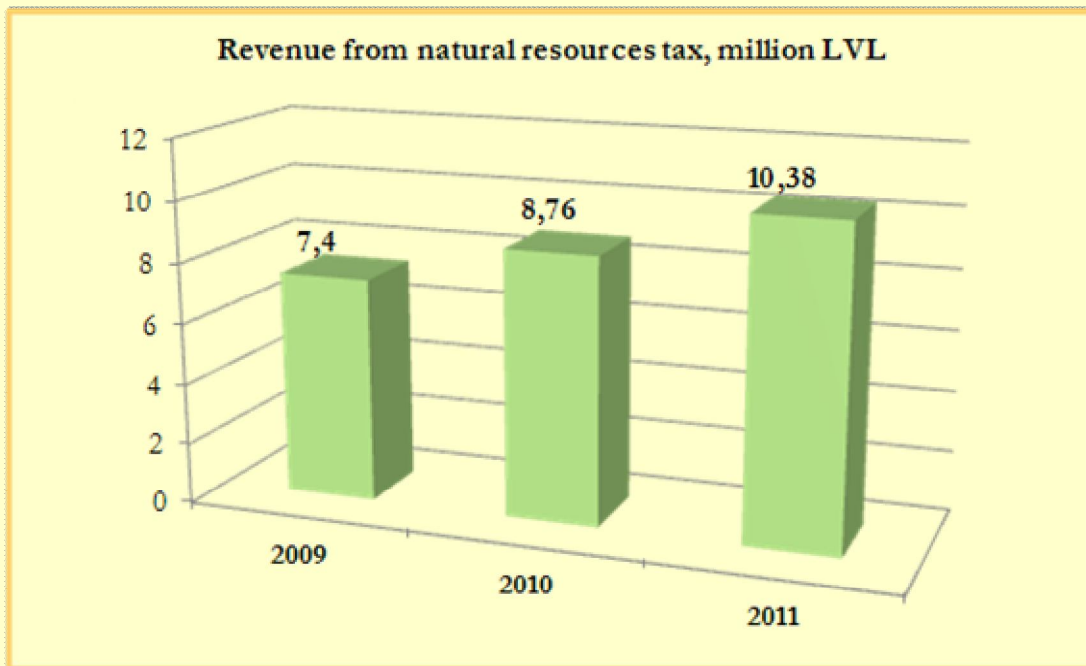
### **Natural resources tax**

In comparison with 2010, the revenue from natural resources tax increased by LVL 1.62 m, or 18.5%, in 2011. The annual revenue plan was fulfilled by 100.4%.

The greatest increase, of LVL 1.88 m, was in the revenue from natural resources tax on the extraction of natural resources and environmental pollution, which accounts for 72.9% of the revenues from natural resources tax.

The main factors affecting revenue from natural resources tax are as follows:

- intensity of economic activities that reduce or increase environmental pressures caused by economic processes;
- the raising of the rate of natural resources tax as of 1 January 2011 for certain taxable objects;
- changes in the number of vehicles registered for the first time.

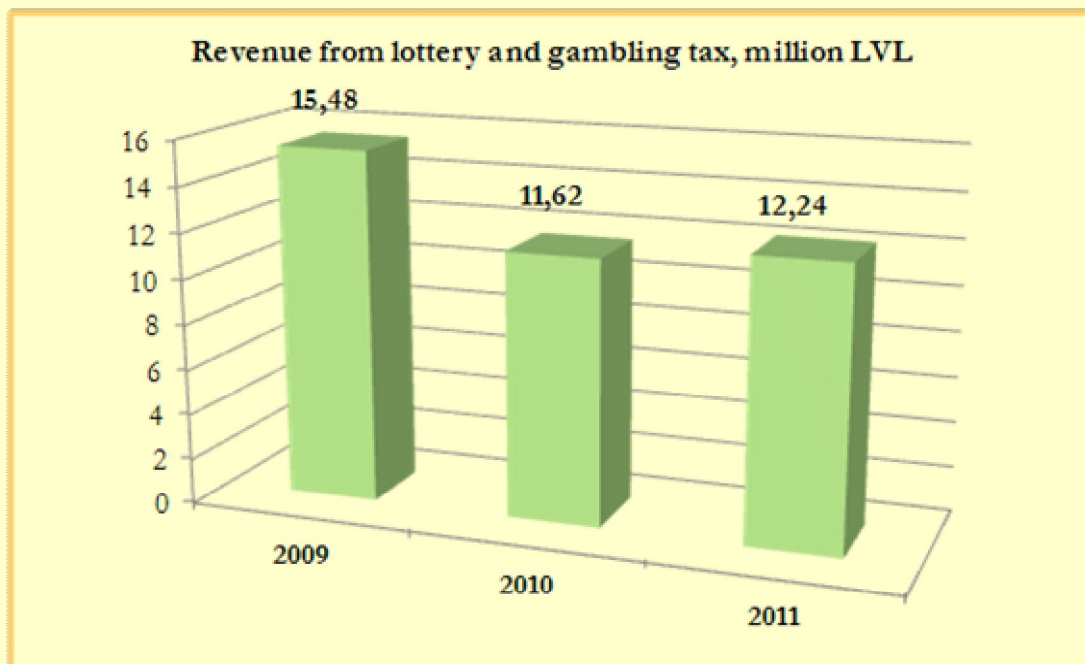


### **Tax and duty on lotteries and gambling**

Lottery and gambling tax is paid by capital companies that have obtained a special permit (licence) for the organisation and maintenance of lotteries and gambling.

The tax is paid:

- for each gambling place of each slot machine and gambling table at each place of direct gambling;
- for revenue earned from the organisation of gambling;
- for revenues from the sale of lottery tickets.



Lottery tax is paid by a single payer, thus the revenues are closely linked to changes in its operations. In turn, gambling tax was paid by 15 taxpayers in 2011.

In accordance to the amended Law on Lottery and Gambling Duty and Tax, which took effect on 1 June 2011, the rate of gambling tax was raised as follows:

- from LVL 9,600 to 10,560 for each gambling table attached to a rotating roulette unit per year and each card and craps table per year;
- from LVL 1,680 to 1,920 for video games and mechanical machines, for each gambling place of each machine per year.

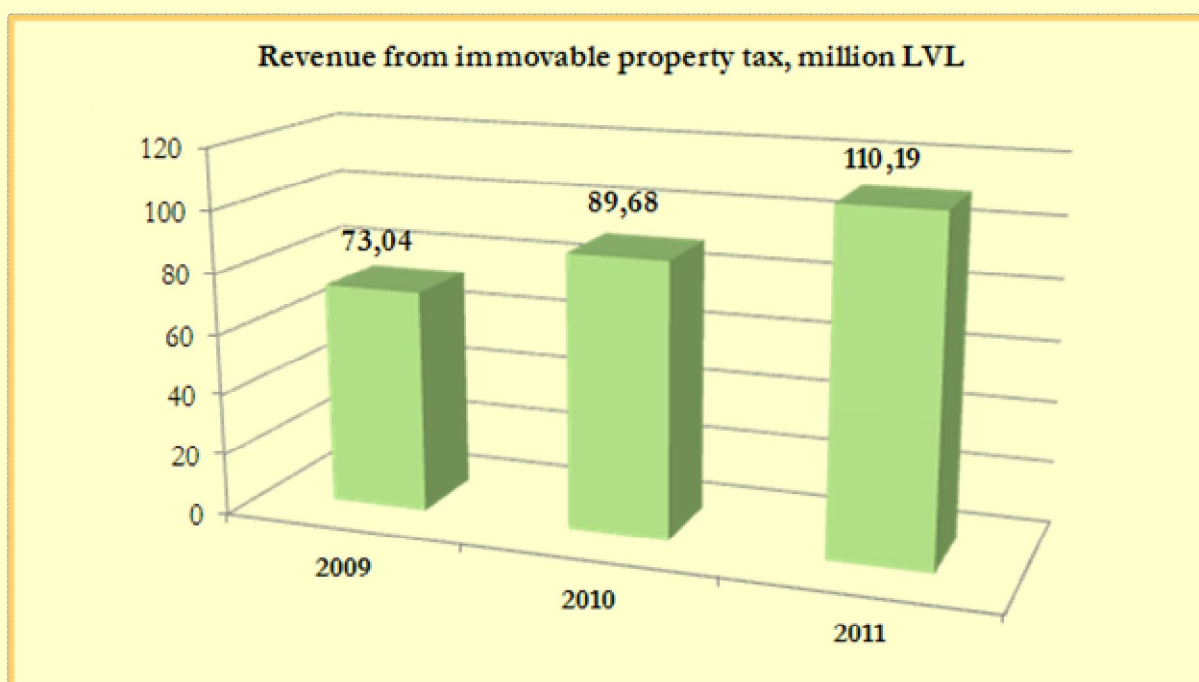
According to the data of the Lotteries and Gambling Supervisory Inspectorate, in June 2011, a sharp reduction in the number of gambling machines could be observed (by 164 units or 2.1%) compared with March 2011. Although in September 2011 it rose again by 55 units or 0.7%, the levels of March 2011 were not reached.

### Immovable property tax

Immovable property tax is administered by local governments and SRS. Local governments notify payers of the amount of immovable property tax for the current tax (calendar) year by dispatching a payment notice. SRS controls the correct application of the Law on Immovable Property Tax.

The immovable property tax rates in 2011 are as follows:

- 1.5% of the cadastral value of an immovable property for land, buildings and constructions;
- for residential houses and parts thereof, groups of premises in non-residential buildings whose functional use is residential, insofar as they are not used to carry out economic activity:
  - 0.2% of the part of cadastral value that does not exceed LVL 40,000;
  - 0.4% of the part of cadastral value that exceeds LVL 40,000 but does not exceed LVL 75,000;
  - 0.6% of the part of cadastral value that exceeds LVL 75,000.



## Passenger car and motorcycle tax

Passenger car and motorcycle tax was introduced as of 1 May 2004; formerly, an excise duty was collected on passenger cars and motorcycles.

Passenger car and motorcycle tax is paid for a passenger car or motorcycle registered in Latvia for the first time.

The tax is assessed on passenger cars depending on the age of the vehicle (counting from the first-time registration year abroad). The highest rates of the tax have been established for vehicles with high-powered engine volumes (from 3,001 cubic centimetres upwards): from LVL 300 to 600. The lowest rate has been established for vehicles aged five to seven: LVL 75.

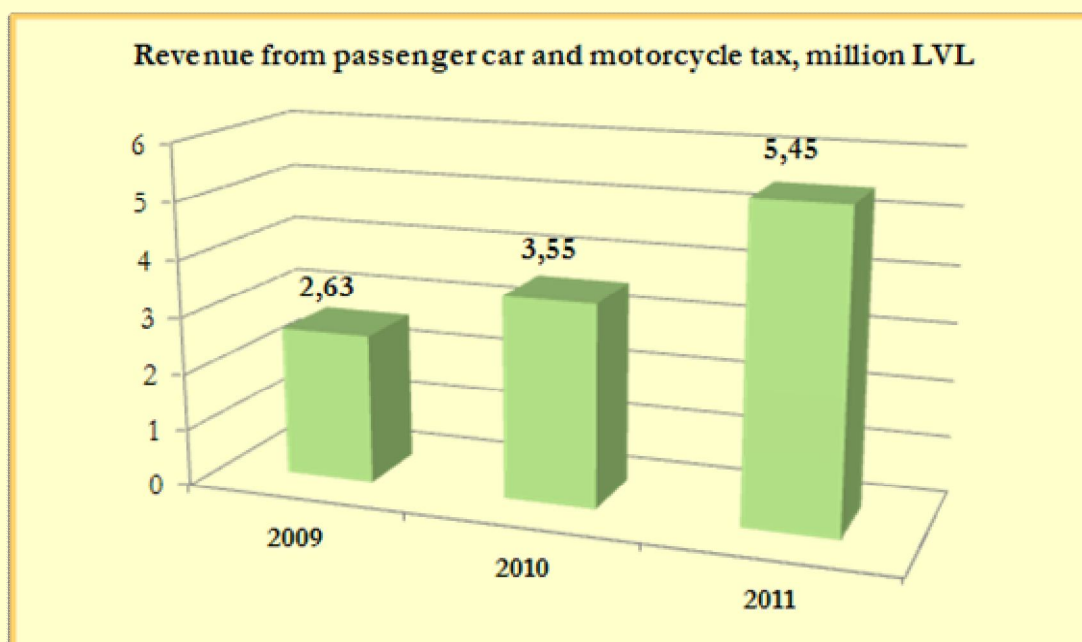
For previously unregistered passenger cars and passenger cars first registered abroad after 1 January 2009, the tax is assessed by applying a rate depending on the amount of carbon dioxide (CO<sub>2</sub>) per kilometre emitted by the vehicle.

For motorcycles, the tax is assessed depending on the age of the motorcycle, by multiplying the corresponding rates established for passenger cars by 0.25.

The revenue from passenger car and motorcycle tax in 2011 was LVL 5.45 m, and it exceeds the 2010 revenue by LVL 1.9 m, or 53.5%. The annual revenue plan was fulfilled by 136.4%.

Revenues from passenger car and motorcycle tax are mainly affected by changes in the number of passenger vehicles registered for the first time in Latvia. According to data by the Road Traffic Safety Directorate, in 2011, 43,468 passenger vehicles were registered for the first time and, compared with 2010, the number of first-time registrations grew by 63.1%.

If a passenger car or motorcycle is de-registered within six months of registration for transportation out of Latvia, the passenger car and motorcycle tax paid is refunded and, in 2011, according to data by the Road Traffic Safety Directorate, 2,479 passenger vehicles registered for the first time were removed from Latvia. In 2011, passenger car and motorcycle tax refunds worth LVL 0.35 m were made, which is 23.1% more than in the preceding year.



## Vehicle operation tax

Vehicle operation tax, which replaced the annual vehicle fee, took effect on 1 January 2011, and in 2011 the revenues from this tax were LVL 44.17 m, and the revenue plan for 2011 was fulfilled by 97.5%. The shortfall from reaching the target constituted LVL 1.11 m. It must be

noted, however, that if the revenue is added to the revenue from the annual vehicle fee for the period (LVL 2.56 m), the target has been exceeded. The annual vehicle fee in 2011 was paid for previous years.

For the sake of comparison, the revenue from the annual vehicle fee in 2010 was LVL 39.49 m.

Tax revenues depend on the operations undertaken by taxpayers with vehicles that are subject to the tax. According to data by the Road Traffic Safety Directorate, even though there was an increase in the number of vehicles (freight and passenger vehicles, buses and motorcycles, tricycles) that are in working order (that have passed a technical inspection) in 2011, by 9,310 units or 1.6% of the registered vehicles, the number of registered vehicles declined by 23,290 units, or 3.2%.

### **Company car tax**

Company car tax has been applied as of 1 January 2011, and it replaces the tax payment on the benefits accruing from the private use of a car belonging to the employer. In 2011, the revenue from company car tax was LVL 12.14 m. The revenue plan for 2011 was fulfilled by 71.4%, and the shortfall to reach the target was LVL 4.86 m.

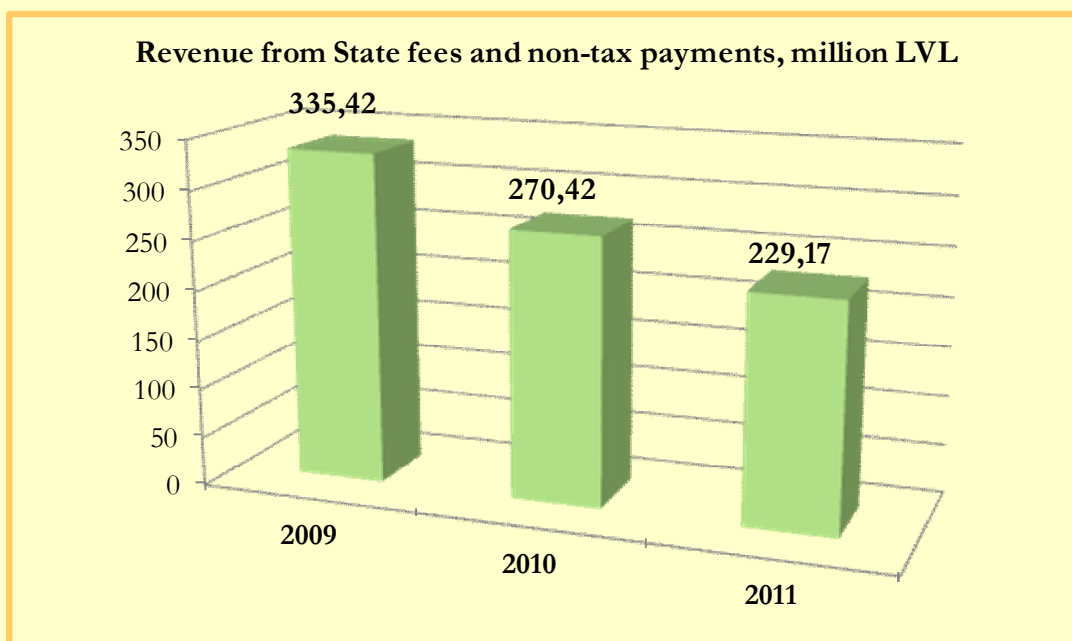
In accordance with the information provided by the Road Traffic Safety Directorate, in 2011, company car tax was to be paid on 53,850 vehicles. In the assessment of the Road Traffic Safety Directorate, in 2011, the tax was paid in full on approximately 22,898 (or 42.5%) vehicles, paid partially on 19,647 (or 36.5%) vehicles, and no tax was paid on 11,305, or 21%, vehicles.

Actual revenues were affected by the fact that, as observed by experts with the Road Traffic Safety Directorate, merchants tried to avoid the payment of the tax by re-registering vehicles in the name of natural persons, undergoing the State technical inspection of the vehicles, and then changing the registration back to the legal persons.

### **State fees and non-tax payments**

State fee and non-tax payments comprise the following:

- State (local government) fees and office fees;
- revenue from the payment by the Bank of Latvia;
- revenue from dividends (revenue from the use of State (local government) capital);
- revenue from the sale of State-owned greenhouse gas emission units;
- monetary fines and penalties;
- other non-tax revenues.



### Administration of public benefit organisations

#### Actions by SRS in the area of administering public benefit organisations (PBOs):

Action by SRS	Number of organisations
Awarded the status of a PBO	315
PBO status denied	34
PBO status denied in an area of additional activity	0
Compliance of an activity with the Public Benefit Organisations Law assessed	1 352
Warnings issued regarding non-compliance of an activity with the Public Benefit Organisations Law	102
PBO status revoked	51

#### Facilitation of the operation of the Public Benefit Commission (PBC):

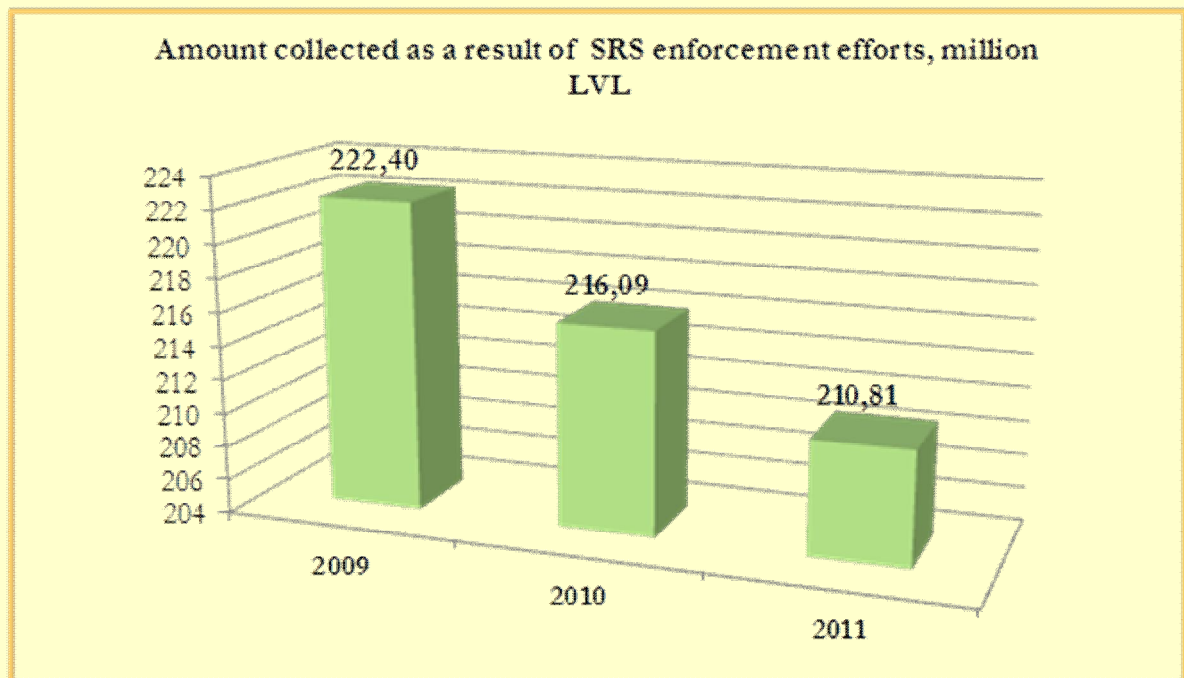
Facilitation of PBC operations	Number of documents
PBC meetings organised	22
PBC minutes drawn up	22
PBC opinions drawn up	408

### Tax debt enforcement

In 2011, following tax debt enforcement measures by SRS, LVL 210.81 m was paid into the budget. In comparison with 2010, LVL 5.28 m, or 2.45%, less was collected through enforcement in 2011.

The amount of tax debt recovered in 2011, compared with the amounts recovered in 2010:

Type of tax	2010	2011	Change, 2011 vs. 2010		% of the total debt amount recovered
			million LVL	%	
<b>Total recovered, of which:</b>	<b>216.09</b>	<b>210.81</b>	<b>-5.28</b>	<b>-2.45</b>	<b>100.00</b>
VAT	81.81	85.57	3.76	4.60	40.59
EIT	12.96	13.31	0.35	2.70	6.31
PIT	44.06	40.61	-3.45	-7.83	19.26
MET	0.00	0.87	0.87		0.41
CSSIC	72.42	66.40	-6.02	-8.31	31.50
ED	3.11	0.19	-2.92	-93.77	0.09
NRT	0.75	0.61	-0.14	-19.15	0.29
Other taxes and payments	0.98	3.25	2.27	231.43	1.54



The reduction in the amount of tax debt recovered can be explained with the decrease in the real recoverable debt in 2011: if real recoverable debt as of 1 January 2011 is compared with that as of 31 December 2011, it has shrunk by LVL 76.81 m, or 24.4%.

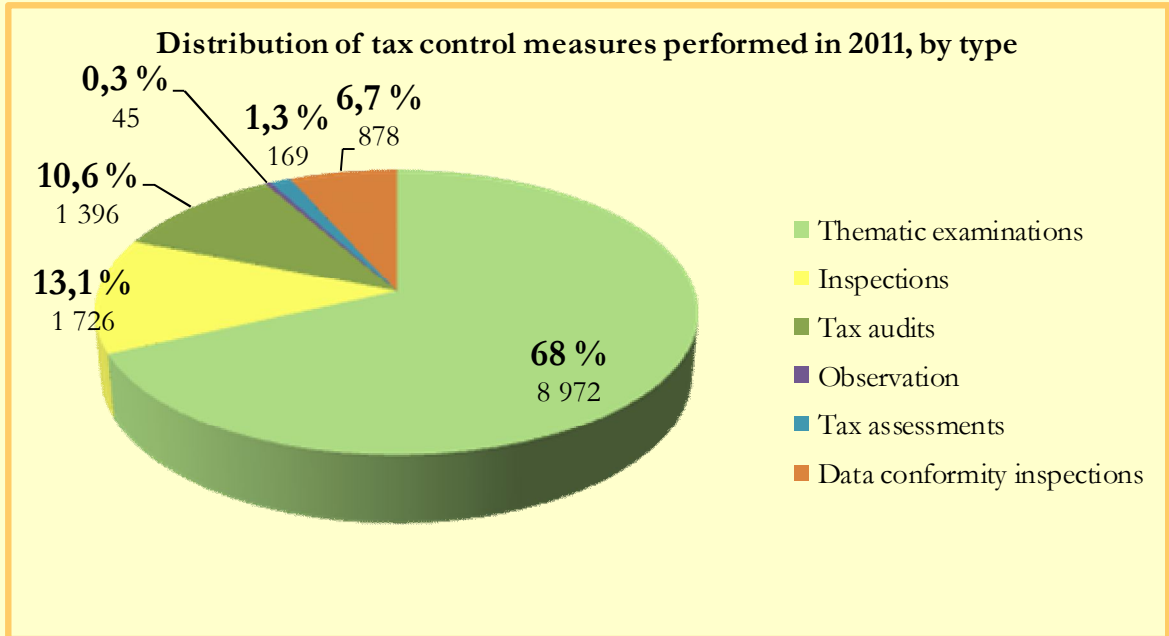
## Tax control

Specialisation was established for tax control in 2011:

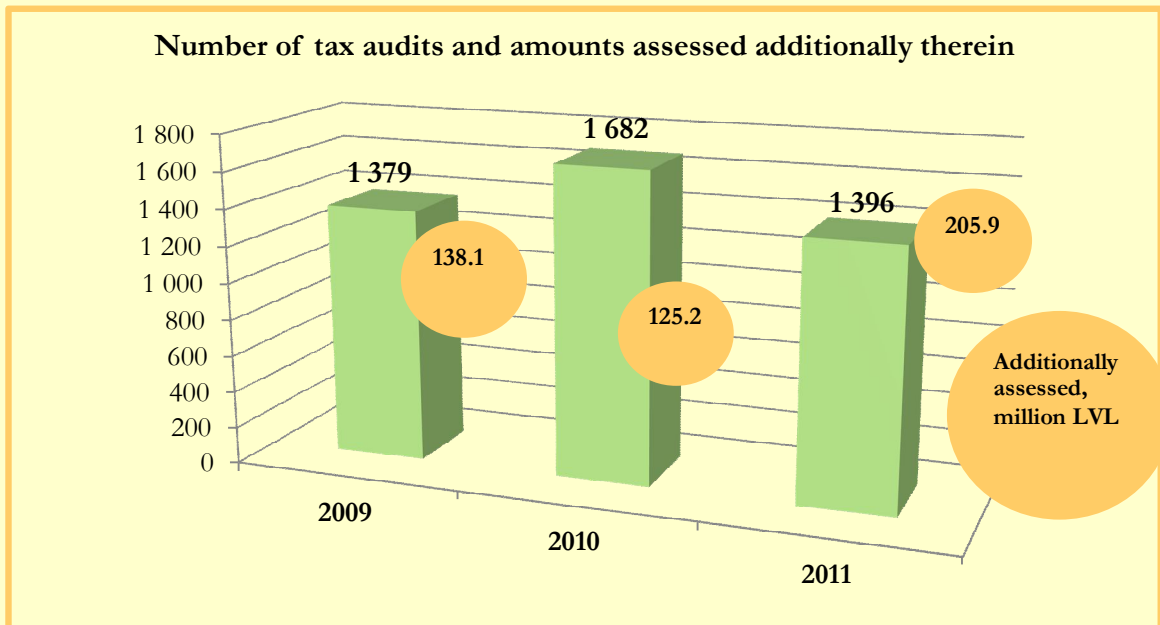
- on matters of “cash-in-hand” wages: a separate division performs audits of payroll tax and compulsory state social insurance contributions;
- a separate division performs tax audits of natural persons with high income but whose tax payments into the budget are low;

- certain staff members specialise in inspections regarding illegal interference with cash register and cash system software and illegal data editing.

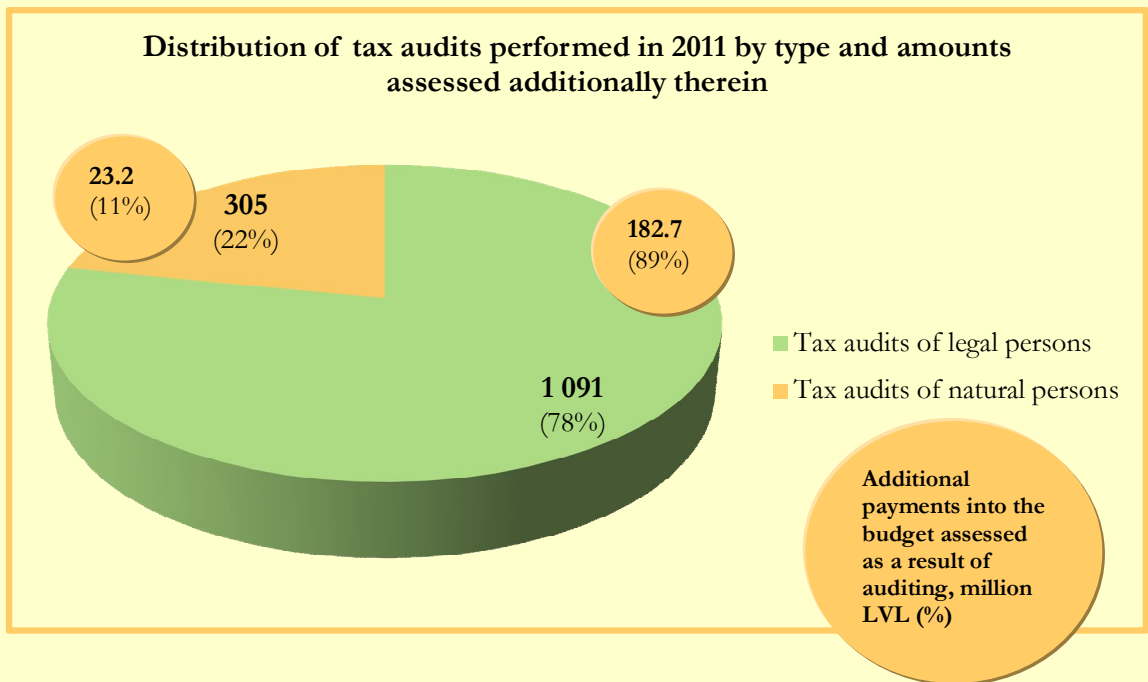
In 2011, SRS performed 13,186 tax control measures: tax audits, tax assessments, thematic examinations, observations data conformity inspections and inspections – on 8,258 legal persons (12,202 tax control measures) and 934 natural persons (984 measures).



### Tax audits



In comparison with 2010, the total amount assessed in tax audits has increased 1.6 times.

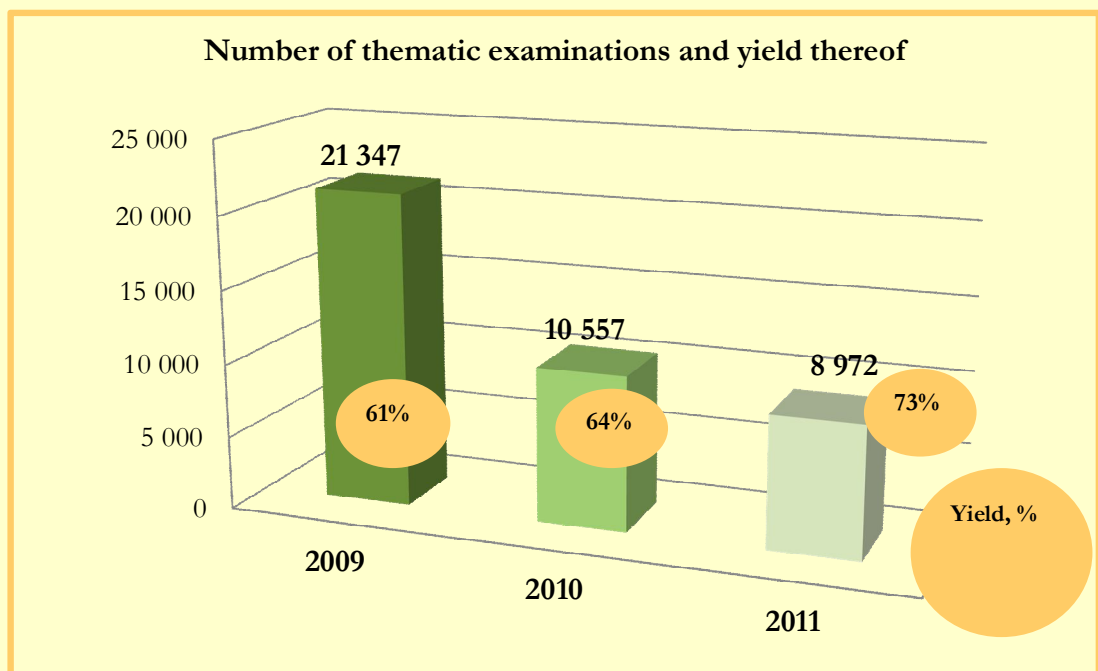


The greatest proportion among the types of tax for which additional assessments were made in 2011 was VAT: 50% (LVL 103.1 m) of the total amount assessed in tax audits. Of the total amount assessed in tax audits, PIT accounted for 6% (LVL 12.6 m) and EIT accounted for 4% (LVL 8.5%).

### Tax assessments

In 2011, at the request of persons directing criminal proceedings, SRS performed 169 tax assessments, in which the amount of loss caused to the budget was determined to be LVL 15.8 m.

### Thematic examinations



Thematic examinations in 2011 in most cases (5,351) pertained to the legal employment relations between employers and employees; in 3,010 cases, the checks targeted accounting records; in 2,943 sales operations were examined; 691 thematic examinations targeted the provision of services; and in 172 cases, the reporting of cash transactions and compliance with restrictions on the use of cash were examined.

Upon performing thematic examinations and detecting that taxpayers have not submitted all the necessary statements to SRS, or the information therein has been provided incorrectly, 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, the taxpayers themselves have adjusted their tax returns for the amount of LVL 2.7 m.

### Fines imposed in thematic examinations

Period	Number of examinations in which a fine was imposed for the violations detected	The share of examinations in which a fine was assessed in the number of examinations in which violations were detected (%)	Sum total of the fines imposed (thousand LVL)	Average amount of the fines imposed (LVL)
2009	2 761	28%	251.1	91
2010	1 749	34%	2453.6, incl. 194.6* 2259.0**	– 111* –
2011	2 506	41%	1 652.8, incl. 327.9* 1 324.9**	– 131* –

\* a fine was assessed, except for violations detected pertaining to non-compliance with restrictions on the use of cash.

\*\* a fine was assessed for violations detected pertaining to non-compliance with restrictions on the use of cash.

### Data conformity inspections

SRS also performs data conformity inspections, during which the conformity of the information provided in the tax returns submitted by taxpayers with the information in the possession of SRS and with the regulatory enactments is verified. As part of the data conformity inspection process, taxpayers are afforded the opportunity to correct the irregularities detected by SRS themselves.

## Additional payments assessed in data conformity inspections in 2011

Tax	Number of taxpayers who themselves rectified the irregularities detected and submitted adjusted returns	Tax amount adjusted by taxpayers themselves/amount of reduced losses (thousand LVL)	Number of taxpayers with respect to whom SRS took a decision regarding additionally assessed tax amounts	Tax amount additionally assessed by SRS/amount of reduced losses (thousand LVL)
Value added tax	135	1 349.6	359	4 963.2
Enterprise income tax	183	7.4/1 185.0	78	3.7/415.5
Personal income tax (starting July 2011)	10*	9.6*	524	65.4
Excise duty (starting July 2011)	4	5.0	2	5.4

*\* information only about data conformity inspections of returns on capital gains.*

### Cooperation with industry associations

In the summer of 2010, SRS embarked on developing a new form of collaboration with enterprises: entering into an agreement with industry associations. This was done with the purpose of forming a partnership with industry associations in order to reduce tax evasion by merchants, in particular through payment of “envelope wages” (cash in hand), thus restricting opportunities for unfair competition, as well as to interest the merchants themselves in displaying initiative and understanding in sorting out the matters related to tax compliance within their industry.

Partnership agreements have been concluded with 12 industry associations, of those, six were entered into in 2011.

During meetings between SRS and representatives of industry associations, an agreement has been reached regarding the improvement of the methods employed in the inspections by SRS, i.e., professionals from the industry associations could be involved in the inspection process.

As part of the partnership, four industry associations have organised practical training for tax auditors at member companies of the associations.

### Combating of cash-in-hand wage payments

One of the priorities of SRS in the recent years has been the reduction of the so-called “envelope wages” (cash in hand payments). In 2011, inspections were carried out on 5,351 employers; compared with 2010, the number of employer inspections has increased by 46%, which indicates that SRS has become more active in reducing cash-in-hand payments.

Most frequently, thematic examinations of employers have shown that taxes on wages and salaries are calculated and paid incorrectly, no information is provided to SRS regarding staff movements, violations have been committed in accounting for working hours, the data in the employer statements submitted to SRS do not match the data shown in accounting records. In 122 thematic examinations of employers, it was established that for 248 employees the legal employment relationship has not been officially registered, and thus no taxes were assessed and paid for said individuals. In 351 cases, a fine was imposed for the violations detected in thematic examinations of employers in accordance with the Latvian Administrative Violations Code to the tune of LVL 90,800.

Also, as a result of preventive measures carried out during the thematic examinations, employers themselves (1,718) rectified the violations detected, by assessing compulsory state social insurance contributions and personal income tax for payment into the budget in the amount of LVL 362,800.

In 2011, compulsory state social insurance contributions were audited for legal persons in 567 tax audits, or 41% of the total number of tax audits, in which additional compulsory state social insurance contributions and penalties were assessed in the amount of LVL 2,074,200. In 2011, personal income tax was audited for legal persons in 563 tax audits, or 40% of the total number of tax audits, in which additional personal income tax and penalties were assessed in the amount of LVL 971,400.

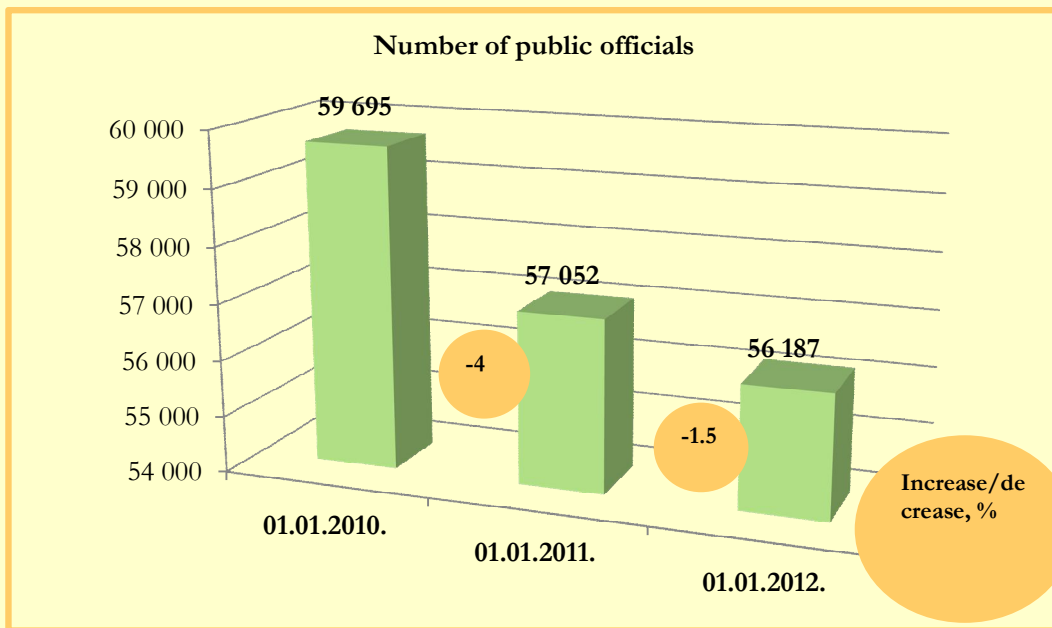
## **CONTROL OF THE ACTIVITY OF PUBLIC OFFICIALS**

According to the Law on the Prevention of Conflict of Interest in the Activities of Public Officials, the main tasks of SRS are as follows:

- to control the fulfilment of the requirements regarding the procedures of completion and timely submission of the declarations of public officials;
- to ensure the registration and storage of the declarations of public officials and the publication thereof in accordance with the procedures prescribed by the regulatory enactments;
- to control compliance with the requirements regarding the filling in and submission of lists of public officials and amendments thereto;
- to hold public officials administratively liable for failure to submit the declaration of a public official within the specified period, failure to comply with the procedure for the completion and submission of the declaration or provision of inaccurate information in the declaration;
- to hold heads of State and local government institutions administratively liable for failure to submit lists of public officials and amendments thereto according to the specified procedures or for the submission of incomplete lists.

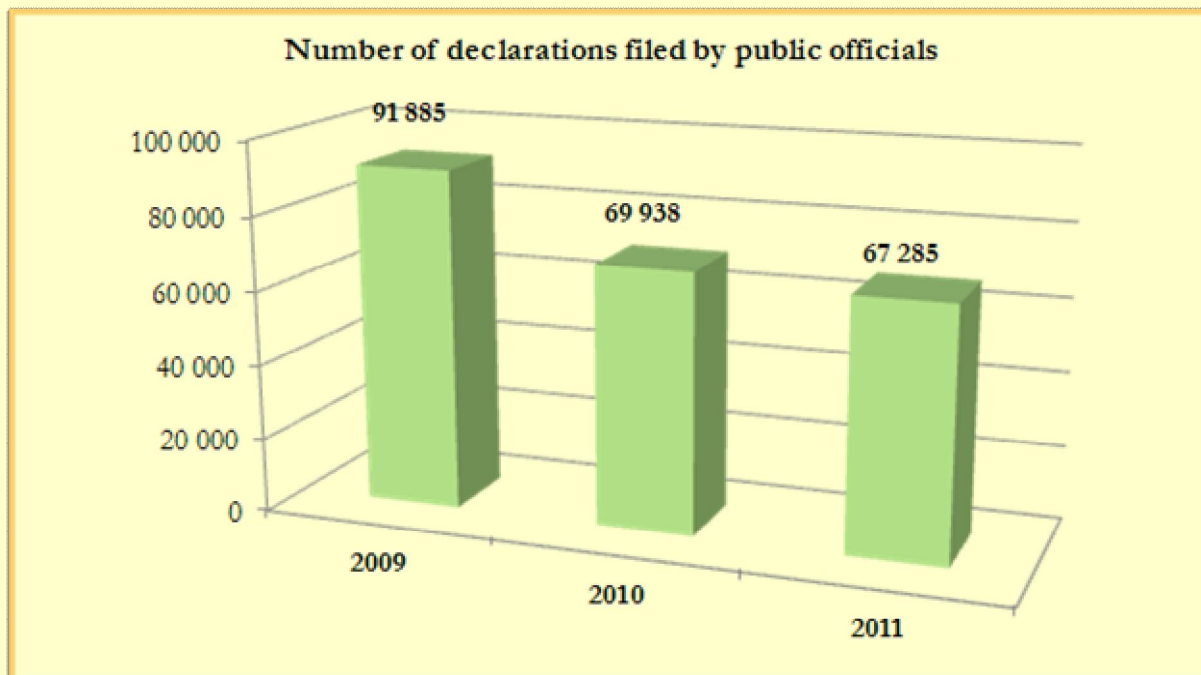
### **Number of public officials and number of declarations submitted**

As of 1 January 2012, 56,187 public officials were registered in the country.

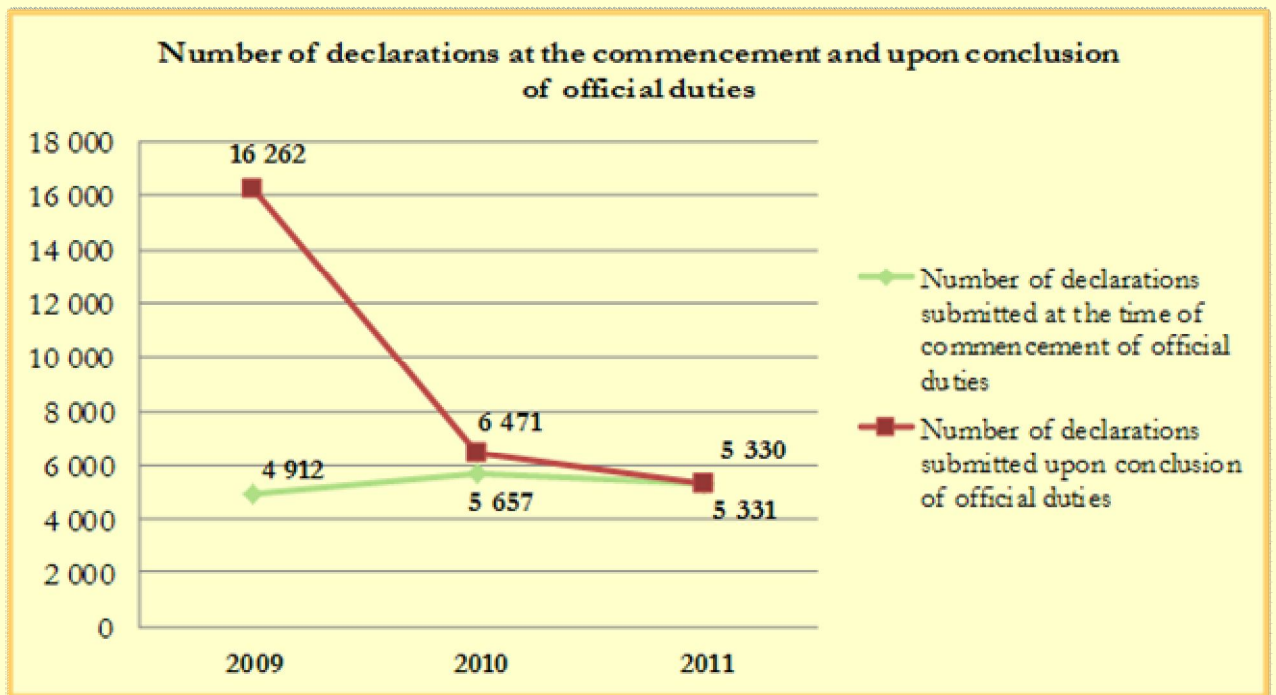


In comparison to the previous year, the number of public officials decreased by 865 (or 2%) in 2011. The decrease in the number of public officials is related to the overall economic situation in the country: State and local governments have been reorganised multiple times.

Altogether, 67,285 public officials' declarations were submitted to SRS in 2011, which is 2,653 (or 4%) fewer than the figure in 2010.



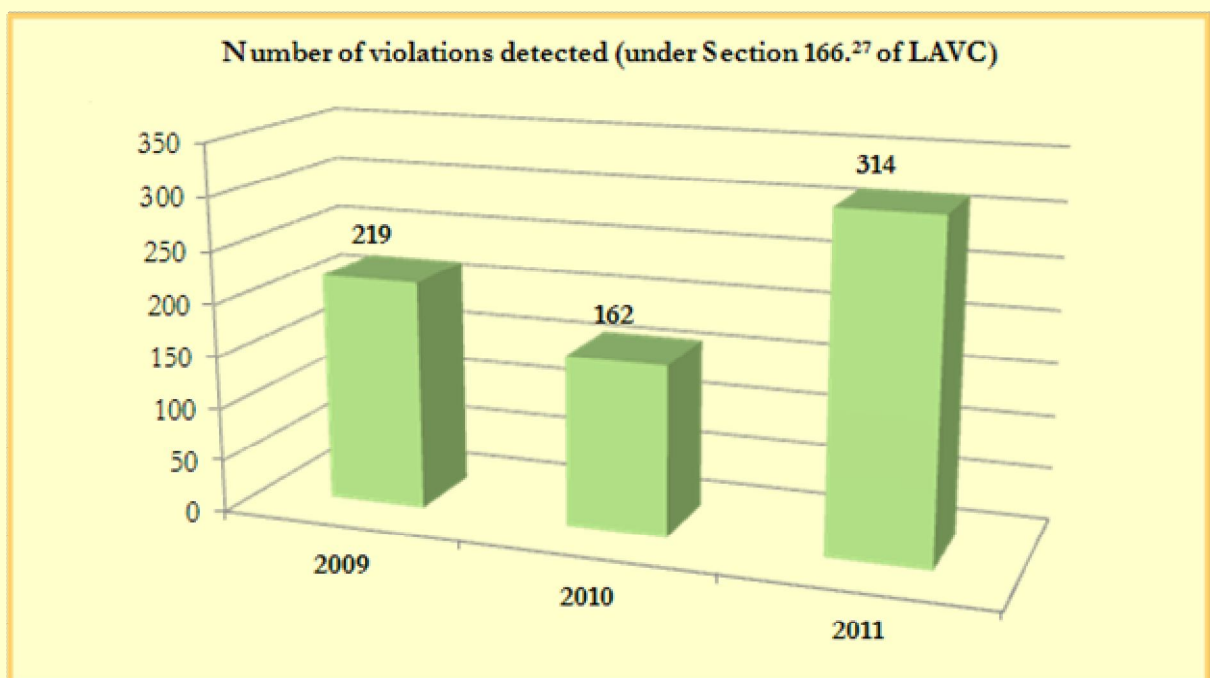
In 2011, 5,331 declarations were submitted at the time of commencing official duties, which is 326 (6%) fewer than in 2010. In turn, 5,330 declarations were submitted upon conclusion of official duties, which is 1,141 (18%) fewer than in 2010. The evening out of the number of declarations submitted upon commencement and upon conclusion of official duties indicates a reduction in the turnover of public officials at the authorities.



### Violations detected and penalties

In 2011, 314 matters were reviewed with respect to public officials for failure to submit the declaration of a public official within the specified period, failure to comply with the procedure for the completion and submission of the declaration or provision of inaccurate information in the declaration, which is 152 matters more, or double the figure, than in 2010.

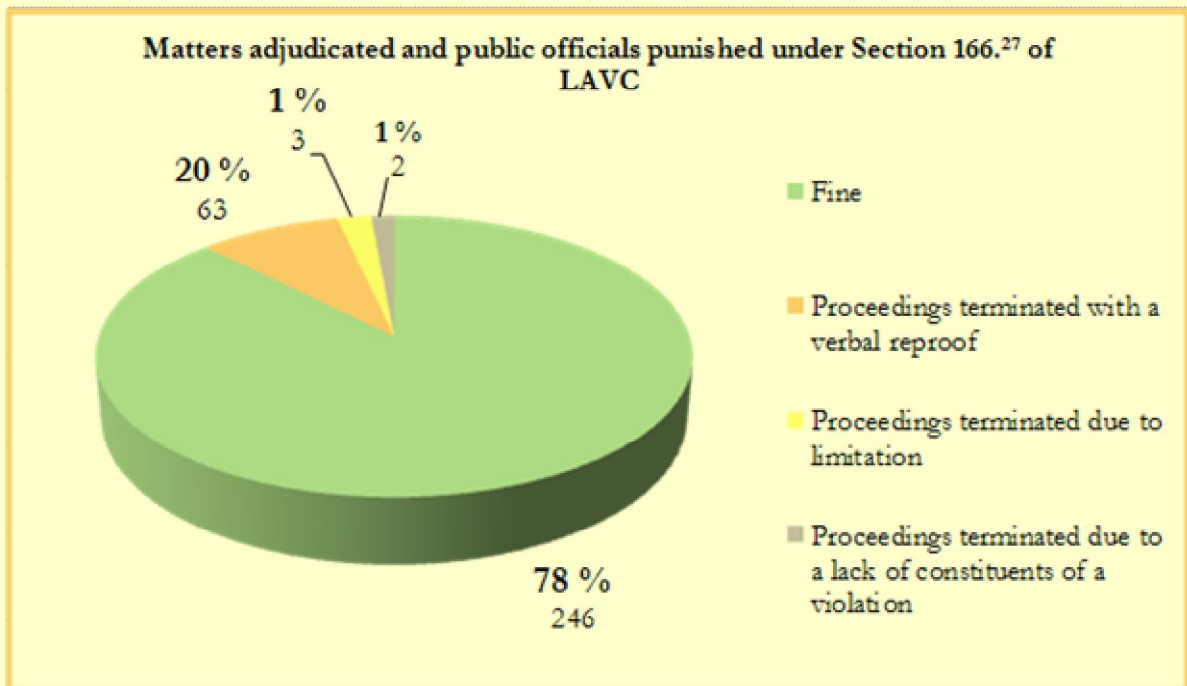
Of the 314 matters reviewed, it was established in 283 matters (or 90%) that public officials' declarations were not submitted within the period specified; in 14 matters (or 4%), inaccurate information was detected in the declarations; and in 18 matters (or 6%), failure to comply with the procedures of the completion and submission of the declaration was established.



In the 314 matters reviewed,

- 246 public officials were fined;
- 63 public officials received a verbal reproof;
- proceedings against two public officials were terminated due to a lack of constituents of a violation;
- proceedings against three public officials were terminated due to a period of limitation.

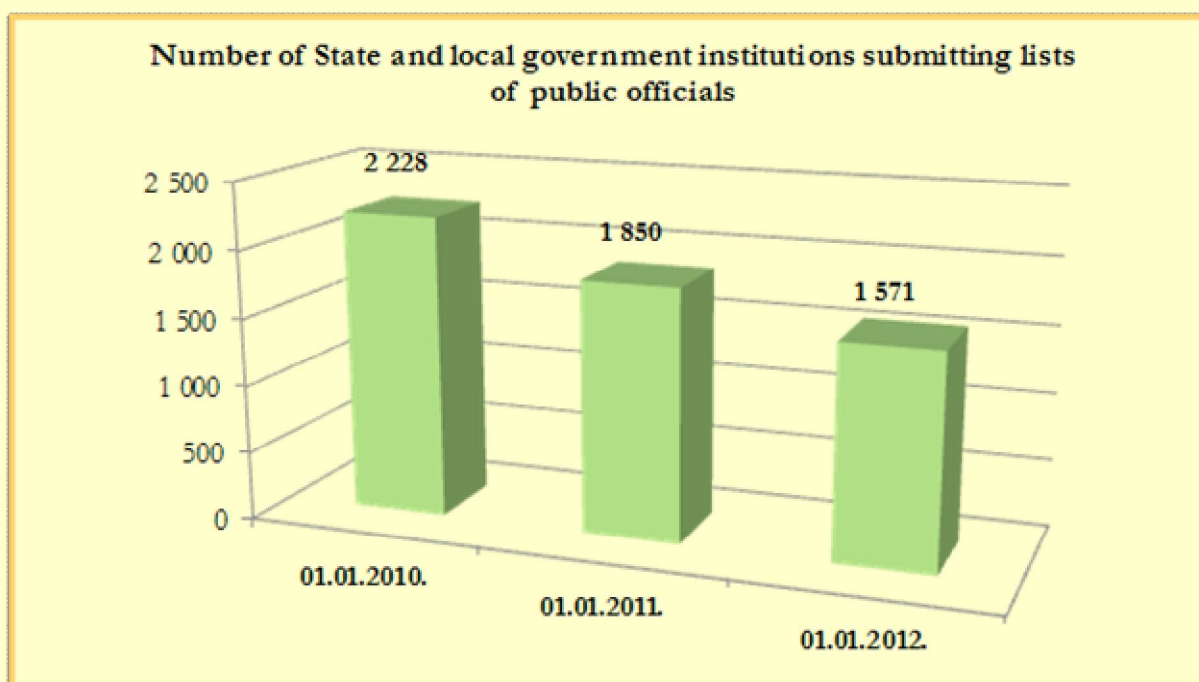
Fines were the form of penalty imposed most frequently, accounting for 78% of the total number of penalties (totalling LVL 10,720). In comparison with 2010, the amount of fines imposed has increased 2.6 times, or LVL 7,945. The number of matters adjudicated in 2011 increased 1.9 times, and the average amount of fines imposed has increased (LVL 44 in 2011 LVL 24 in 2010, LVL 17 in 2009).



### Control of State and local government institutions

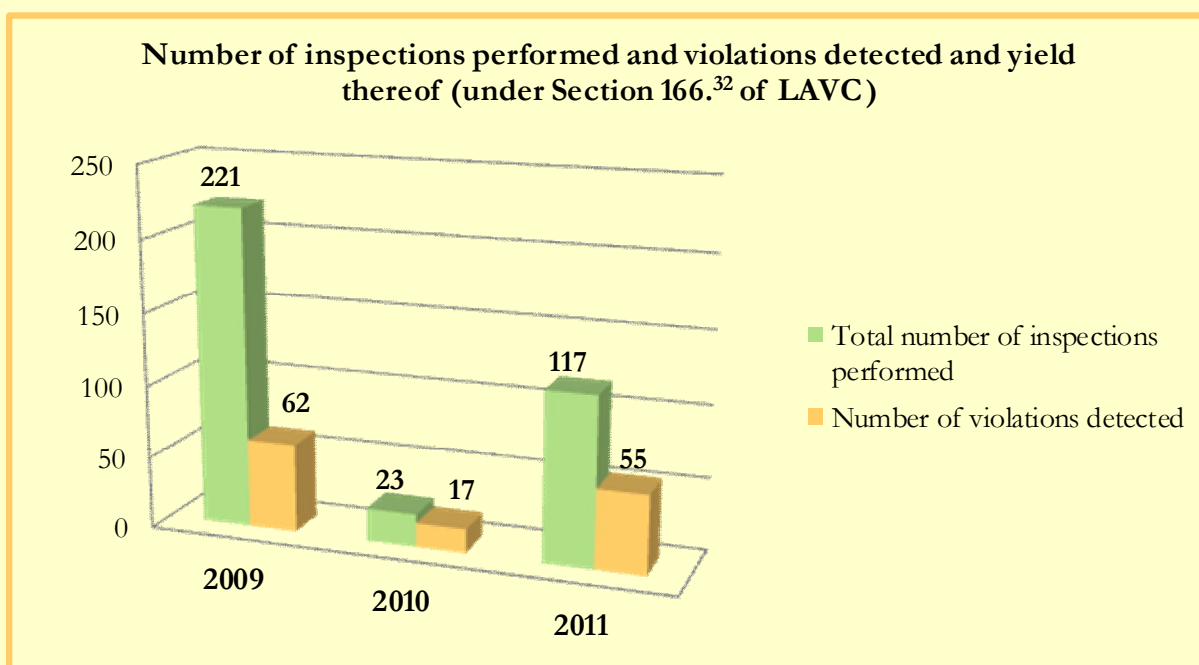
As of 1 January 2012, 1,571 State and local government institutions that submit lists of public officials and amendments thereto to SRS were registered. Of these, 1,134 institutions (or 75%) submit the lists of public officials digitally. The number of State and local government institutions that submit lists of public officials and amendments thereto to SRS decreased by 279, or 15%, in comparison with the preceding year. The reduction is still linked to the dissolution or merger of some institutions.

In 2011, 7,036 lists of public officials or amendments thereto were submitted, of those 5,003 lists, or 71% of the total, were submitted digitally.



#### *Inspections and violations detected*

In 2011, 117 inspections were conducted with respect to the compliance with the prescribed procedures of lists of public officials and amendments thereto submitted by the heads of State and local government institutions. Compared with 2010, the number of inspections carried out has increased by 94 (or 80%). Administrative violations were detected during 55 inspections (or 47% of the total inspections conducted) in 2011.



#### *Implementation of the SRS plan of measures for the prevention of corruption opportunities*

In 2011, the performance of the tasks assigned to SRS in the Corruption Prevention and Combating Programme for 2009-2013 was ensured.

The measures specified in the SRS plan of measures for the prevention of corruption opportunities for 2010-2011 were successfully implemented, and the SRS register of corruption risks was updated.

## **COMBATING OF FINANCIAL CRIME**

In order to detect and prevent criminal offences in the area of State revenue and in the activities of SRS civil servants and employees, SRS carries out operational activities and pre-trial investigations in criminal proceedings.

### **Combating of organised crime**

The activities of 13 criminal groups operating with the purpose of evading tax payments and legalising proceeds from crime were terminated.

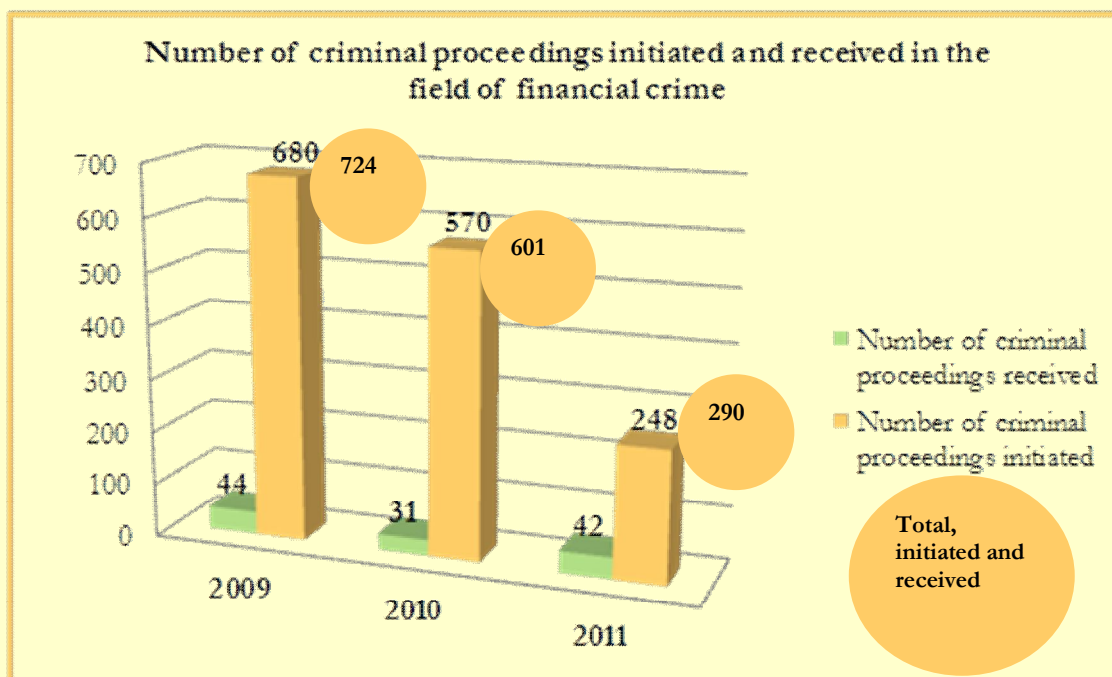
The beneficiaries using the money laundering schemes developed by organised crime groups were forced to correct their value added tax returns and pay LVL 271,546.23 into the State budget.

In 2011, as part of the priority combating of criminal offences linked to organised crime and in particular the legalisation of proceeds from crime/money laundering and tax fraud, the measures taken by SRS resulted in the termination of the activities of 13 groupings. Overall, 37 persons were designated as suspects in these criminal proceedings; the number of enterprises involved was 229. In terms of the priorities set for 2011, good results were achieved in combating the activities of criminal groups in the field of legalising proceeds from crime. This was achieved despite the fact that the detection of the activities of such groups is becoming ever more difficult, as knowledgeable attorneys and financial consultants are being used in the creation of the schemes, who often turn out to be former or current SRS employees. Criminal groups use state-of-the-art technological capacities to commit criminal offences with respect to State revenues and to cover up traces of such criminal offences. For this purpose, the undertakings controlled by criminal groups are frequently registered in the name of low-income individuals who do not intend to engage in economic activity; moreover, enterprises are established repeatedly using the personal data of such persons, enterprises and bank accounts are registered abroad, transfers of funds are carried out using the services of telecommunications operators, thus rendering detection and investigation more difficult.

The demand for tax evasion and money laundering has not generally diminished, yet there are trends indicating that this “service” is becoming increasingly difficult to come by. The provision of these “services” is surrounded by caution and suspicion, and it is now only available through closely acquainted individuals. There are trends showing that undertakings controlled by organised criminal groups (buffer companies) abroad receive transfers of funds from enterprises engaged in real operations to avoid the blocking of funds in accounts with Latvian credit institutions by SRS, which is done as part of combating organised crime. Also, undertakings controlled by organised criminal groups no longer engage in mutual transactions but instead form “vertical schemes”, thus attempting to impede SRS’s ability to identify non-existent transactions.

## Investigation in criminal proceedings

### *Investigation in criminal proceedings in the area of combating financial crime*



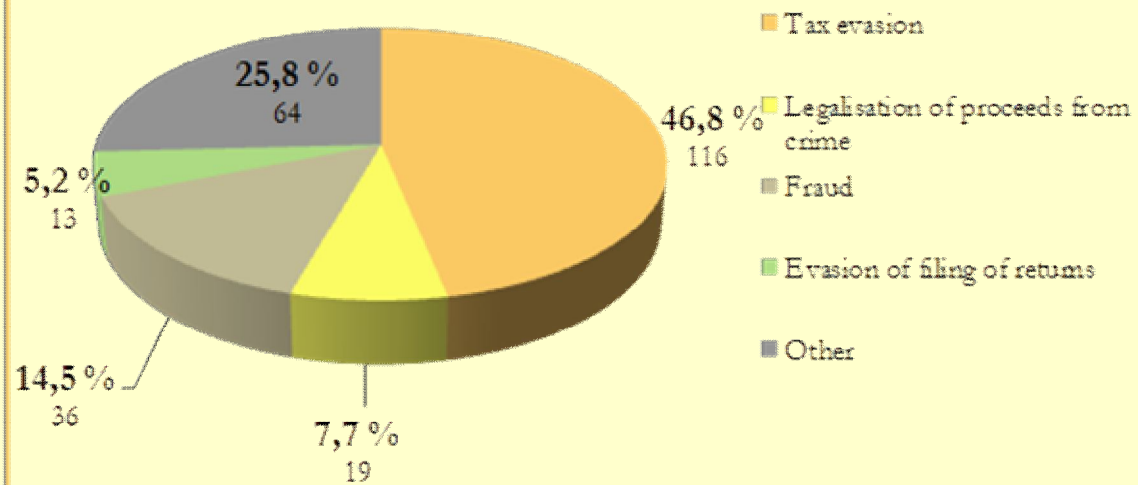
Altogether, 248 criminal proceedings were initiated at SRS in the field of State revenue; 163 proceedings were transferred to commence criminal prosecution.

In comparison with 2010, there is a tendency for the number of initiated proceedings to decline, as in accordance with amendments to the Criminal Law, as of 1 January 2011, Section 214, Paragraph one of the Criminal Law, “Failure to submit an application for insolvency proceedings in the instances prescribed by law” has been excluded (decriminalised), and liability for said violation has been provided for in the Latvian Administrative Violations Code, and, in light of the judgment of 22 November 2010 of the Department of Administrative Cases of the Senate of the Supreme Court of the Republic of Latvia, the principle of inadmissibility of double jeopardy is being observed.

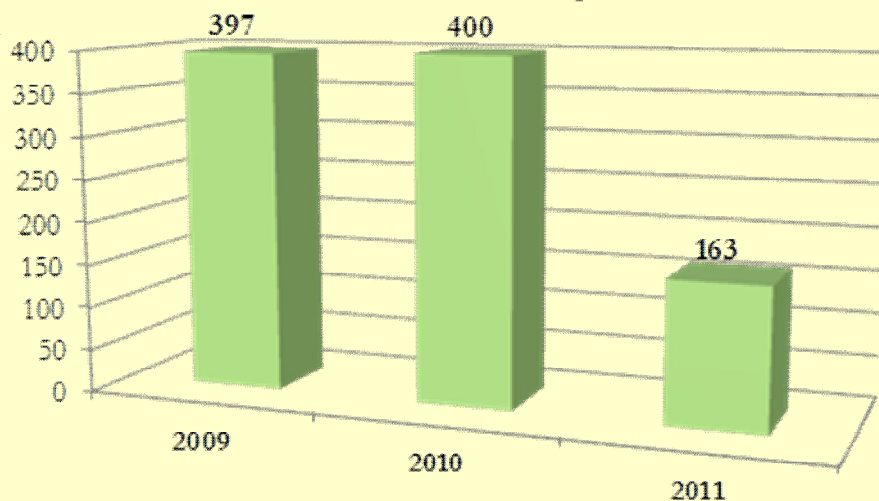
The amount of losses caused to the State as part of the initiated and received criminal proceedings is LVL 44,155,619.

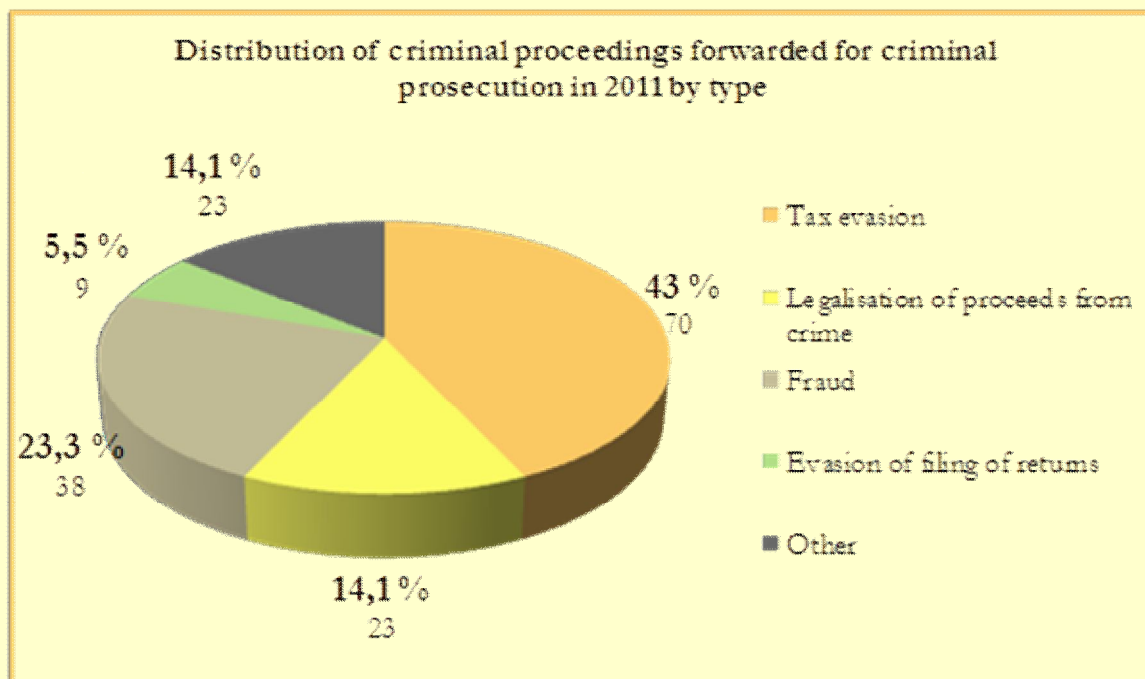
In order to ensure the reimbursement of potential losses caused to the State, a total of LVL 760,839.34 was frozen in bank accounts of enterprises and private individuals as part of criminal proceedings initiated in 2011.

Distribution of criminal proceedings initiated in 2011 by type



Number of criminal proceedings in the field of financial crime forwarded for criminal prosecution





In the criminal proceedings transferred for the initiation of criminal prosecution, the amount of losses caused to the State is LVL 13,302,196.

*Most significant criminal investigations:*

- In March 2011, upon carrying out a number of searches in Riga, the Riga district and a number of towns in Kurzeme, the activities of a criminal grouping engaged in reducing value added tax payable into the State budget were stopped; since 2009 it had turned over funds in the amount of more than LVL 3.5 million and according to provisional estimates, the damages caused to the State budget exceed LVL 770,000. The services of the criminal group were used by approximately 30 enterprises engaged in real activity. Among the clients of the criminal scheme were representatives of various industries, including a number of companies involved in fisheries, which used the services of the criminal scheme not only to lower the amount of VAT to be paid into the State budget but possibly also to legalise fisheries products obtained by exceeding the fishing quotas authorised by the regulatory enactments.
- In April 2011, SRS caused a shock to organised crime by disrupting the activities of a high-class gang of fraudsters and money launderers. The group had set up a chain of companies that was used to provide a “service” to its clients: by forging documents it reduced the amounts payable as tax and laundered money. Initial estimates show that the group has caused LVL 1.7 million in damages to the State budget in the form of unpaid taxes. Seven participating individuals were detained and placed in temporary detention. As part of the criminal proceedings, 25 searches were carried out; during these, important evidence confirming criminal activity was located and seized, such as seals, bank code calculators, documents and cash funds of nearly LVL 13,000. The organised crime group engaged not only in money laundering and aided the clients of the scheme to evade tax payments, but possibly forged documents and official seals, which were used to facilitate the infringements.
- Upon carrying out inspections at 65 retail outlets of a meat processing enterprise throughout the Latvian territory, SRS detected a criminal scheme whereby the retail outlets received goods with waybills that had identical numbering but that differed from each other. One of the waybills stated the true quantity and price of goods, and was

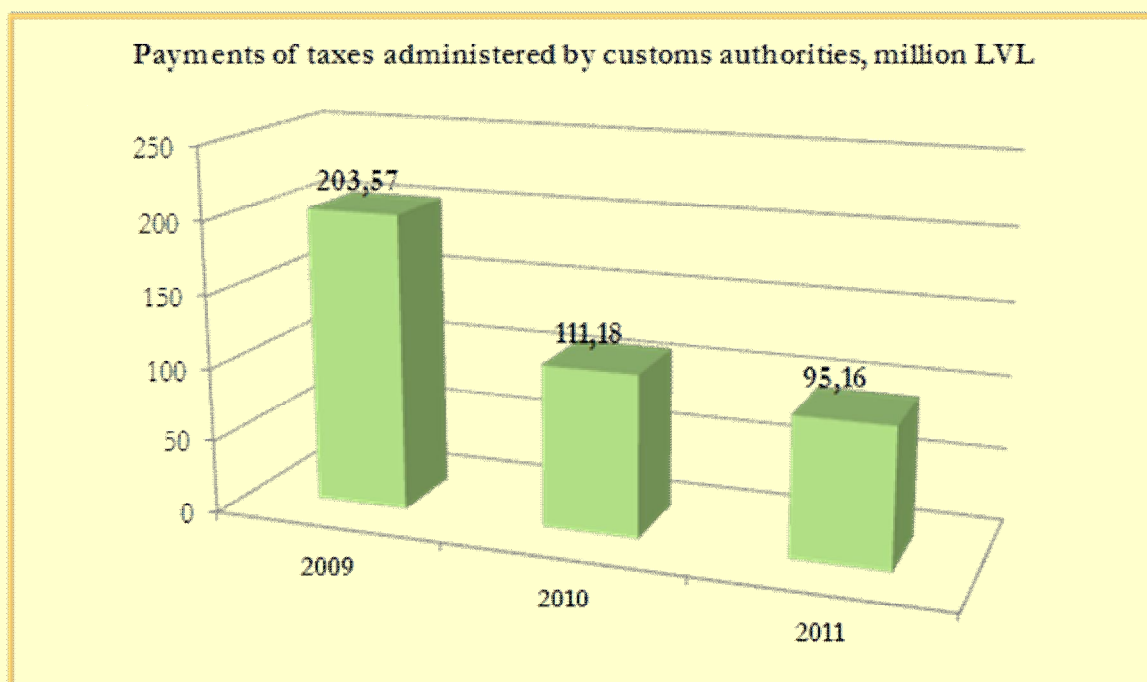
intended to be produced to supervisory authorities at the time of delivery of the goods, whereas the other waybill cited a reduced quantity of goods and was entered into the accounting records at the points of sale. As the goods arrived at a shop or point of sale, the waybills bearing the true quantity and value of goods were customarily destroyed. The sale of goods at the outlets was carried out by reprogramming electronic cash registers, as a result of which buyers received a receipt showing the true quantity and price of goods purchased, whereas purchases were entered into the accounting records by reducing the quantity and total value of goods by up to 50 per cent. The difference arising between the true retail turnover and the turnover recorded on accounting reports constituted so-called “black funds”, which were delivered to the owner of the enterprise consigning the goods, who used the “black funds” for private purposes.

- In another criminal investigation regarding tax evasion through interference with the operation of the electronic cash register system, SRS carried out searches at a number of restaurants in the “quiet centre” of Riga. During the searches, payroll registers for “envelope wages”, accounting documents and other evidence were discovered and seized. Altogether, funds in various currencies were seized worth more than LVL 76,000. After a search of the individual safe deposit box of an officer of the enterprise at a credit institution, nearly EUR 70,000 in cash was located and seized. During the investigation, it was established that the undertakings performed reprogramming of the cash registration system by interfering with its accounting system and reducing the official revenue of the undertakings. This way, the companies avoided the payment of tax, whereas the concealed funds were used towards cash-in-hand wage payments and the purchase of supplies.

## CUSTOMS MATTERS

### Ensuring the collection of customs payments

A portion of the State basic budget revenues is collected by customs authorities.



## Payments of taxes administered by customs authorities, according to type

Types of tax	Revenue (million LVL)		Increase/decrease (2011 vs. 2010)	
	In 2010	In 2011	(million LVL)	%
VAT when releasing goods for free circulation	83.83	73.32	-10.5	87.46
Excise duty when importing goods for release for free circulation	10.1	0.97	-9.1	9.60
Customs duty	17.27	20.87	3.6	120.85
<b>Total in the State basic budget</b>	<b>111.18</b>	<b>95.16</b>	<b>-16.02</b>	<b>85.59</b>

The reduction in the revenue from taxes administered by customs authorities is linked to the application of a special VAT regime in import transactions, which provides that the payer of VAT that has received a SRS authorisation may defer the payment into the State budget of VAT calculated in the customs declaration on goods released for free circulation until it is reported in the VAT return for the corresponding taxation period. Thus, funds are obtained to carry out other transactions during the particular period. Businesses are increasingly taking advantage of this opportunity: according to customs statistics, in 2010, of the total amount of VAT calculated in customs declarations, 62% was subject to the special tax regime, whereas in 2011, the share was 75%.

The reduction in the excise duties administered by customs can be explained by the fact that the quantity of excisable goods released for free circulation with placement in an excisable goods warehouse has increased. When goods enter an excisable goods warehouse, the payment of excise duty is made after the goods leave the excisable goods warehouse, and goods are subject to excise duties administered by SRS.

### Administration of traditional own resources

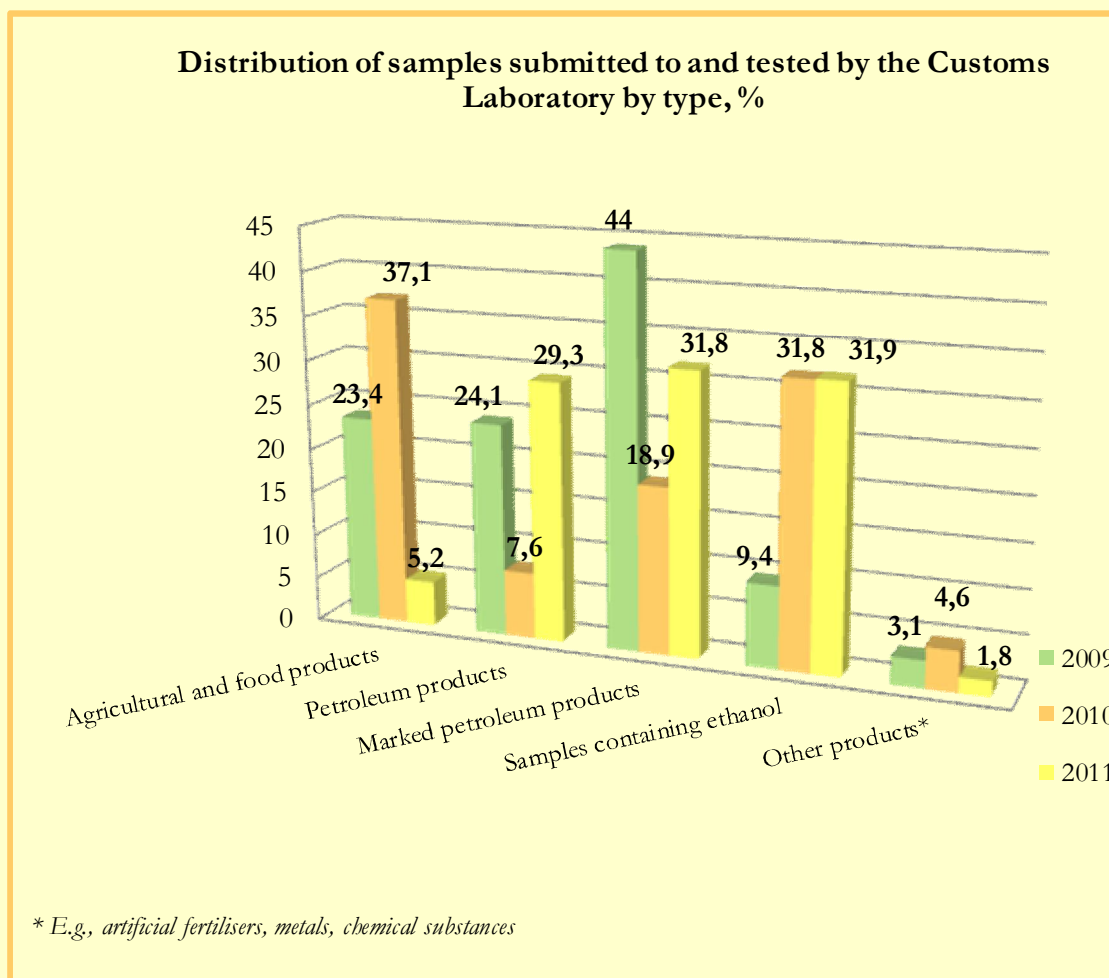
In order to ensure the participation of Latvia in financing the EU budget, SRS performs the accounting and control of traditional own resources collected by customs authorities.

Pursuant to EU regulations, 75% of the assessed amount of traditional own resources (customs fees, product compensations and anti-dumping fees, customs fees in agriculture, etc.) is transferred into the EU budget, whereas 25% of said amount is retained by the Member State as cost of collection. Given these conditions, in 2011, LVL 15.96 was transferred to the EU budget.

## Operations of the Customs Laboratory

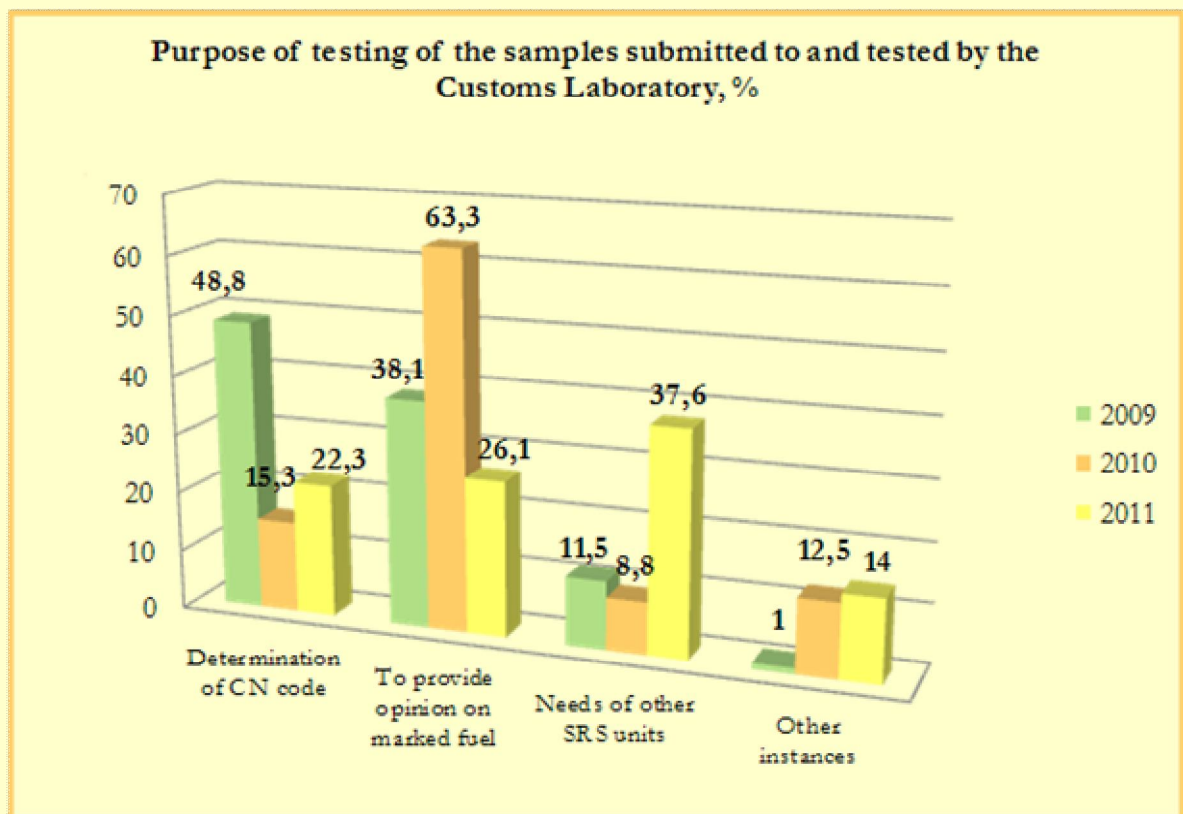
In the EU, customs payments on imported goods are applied in accordance with the EU Combined Nomenclature code, and the main task of the SRS Customs Laboratory is to carry out testing of goods samples in order to establish the characteristics of goods based on which the correct code is assigned to them, which directly determines the amount of customs payments. In accordance with the Law on Excise Duties and the applicable regulatory enactments that stipulate the procedures according to which certain petroleum products are subjected to a reduced rate of excise duty, the Customs Laboratory issues an opinion based on test results confirming that a marked petroleum product has been marked (labelled) in accordance with the requirements. Furthermore, the Customs Laboratory performs the testing of samples submitted by structural

units of State administration institutions (e.g., the State Forensic Science Bureau, the State Police).



The scope of accreditation of the Customs Laboratory covers testing methods for establishing the characteristic parameters of petroleum products, volatile organic liquids and alcoholic beverages. In the recent years, testing methods have been introduced that are necessary in determining the specific characteristics of various food products so as to enable the assignment of a correct agricultural component (EA) code, or Meursing code, in addition to the EU Combined Nomenclature code. In 2011, work commenced on the validation of these methods in order to achieve accreditation thereof in the near future.

In 2011, significant preparatory efforts were carried out to allow for the testing of narcotics precursors to commence: in accordance with the requirements of regulatory enactments, a licence was received from the State Agency of Medicines on 6 January 2011 for activities involving Category 1 precursors; internal SRS regulations establishing the procedures for the procurement, receipt, utilisation, storage, registration and disposal of precursors were developed and approved; a multidimensional gas chromatography system, the necessary auxiliary equipment and reference substances were acquired.



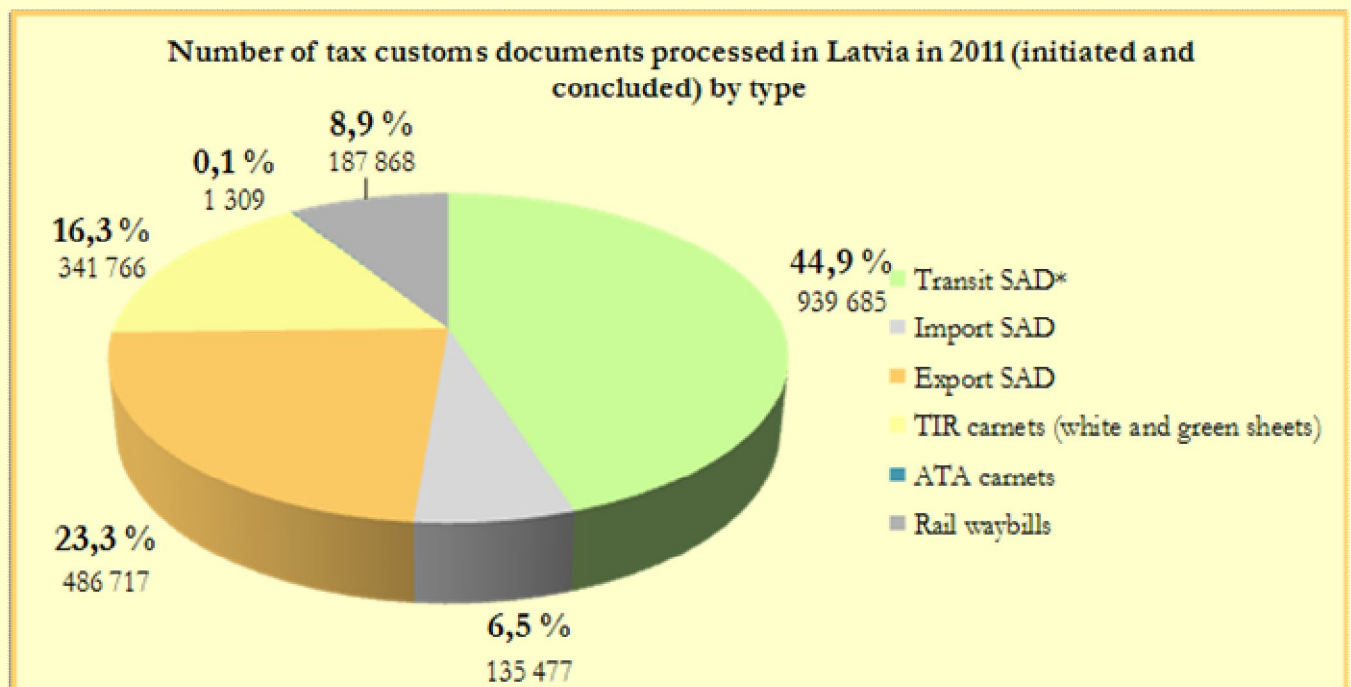
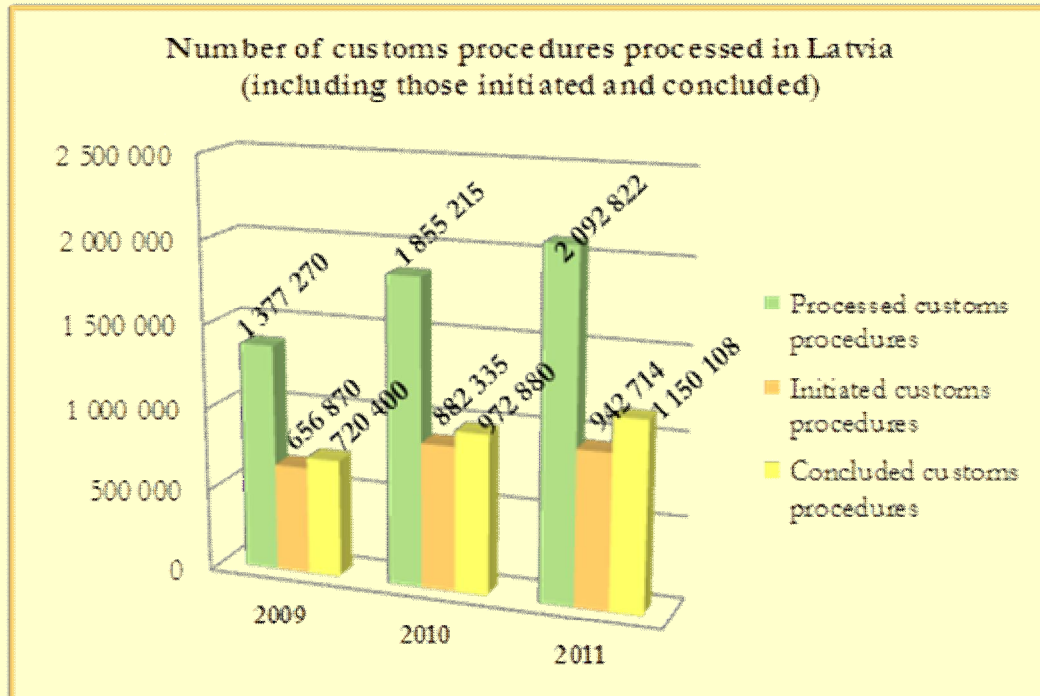
## Promotion of trade

### Customs clearance

The total number of export customs declarations, or SAD, processed in Latvia has risen by 19.3% compared to 2010. The total value of exported goods has increased by 25% (according to customs declarations, the total value of goods exported in 2011 was LVL 1.71 billion, which is LVL 341.8 more than in 2010). In 2011, 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 and electrical equipment, which account for LVL 902.21 m, or 52.7% of the total statistical value of exported goods. In 2011, in terms of the statistical value of exported goods, the highest volume of exported goods was to Russia, Norway and Belarus. The goods exported to Russia included beverages, alcoholic liquids and vinegar valued LVL 170.7 m; mechanisms and mechanical devices valued LVL 90.3 m; exports to Norway included timber and timber products valued LVL 31.5 m; iron or steel products valued LVL 20.8 m; exports to Belarus included land vehicles valued LVL 15.8 m. In 2011, 2.8 m tonnes of goods were exported, which is 146,910 tonnes, or 5.4%, more than in the preceding year.

The number of import customs declarations for the release of goods for free circulation processed in 2011 increased by 20.3%. The total statistical value of imported goods has increased by 21.9% (according to customs declarations, the total value of goods imported in 2011 was LVL 1.81 billion, which is LVL 325.3 m more than in 2010). In 2011, 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 b, or 55.3% of the total statistical value of imported goods. In 2011, similar to the preceding year, the highest volume of goods for release for free circulation in terms of statistical value was imported from Russia, Belarus and China. In 2011, imports from Russia included mineral fuels valued LVL 385.12 m, iron and steel valued

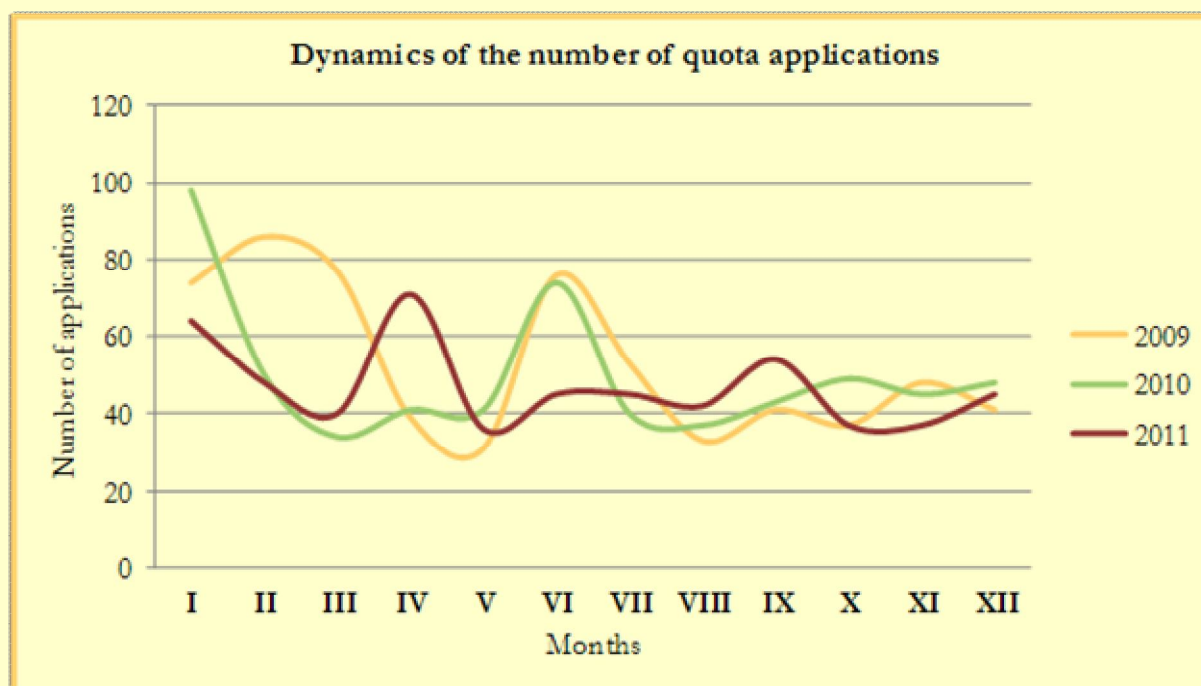
LVL 105.07 m, timber and timber products valued LVL 35.35 m; imports from Belarus included mineral fuels valued LVL 151.25 m, iron and steel valued LVL 86.2 m; imports from China included electrical devices and electrical equipment valued LVL 65.87 m, mechanisms and mechanical devices valued LVL 35.48 m, furniture and bedding accessories valued LVL 12.89 m. In 2011, 4.54 m tonnes of goods were imported for release for free circulation, which is 121,24 tonnes, or 2.74%, more than in the preceding year.



\* SAD – single administrative document

## Administration of EU tariff quotas

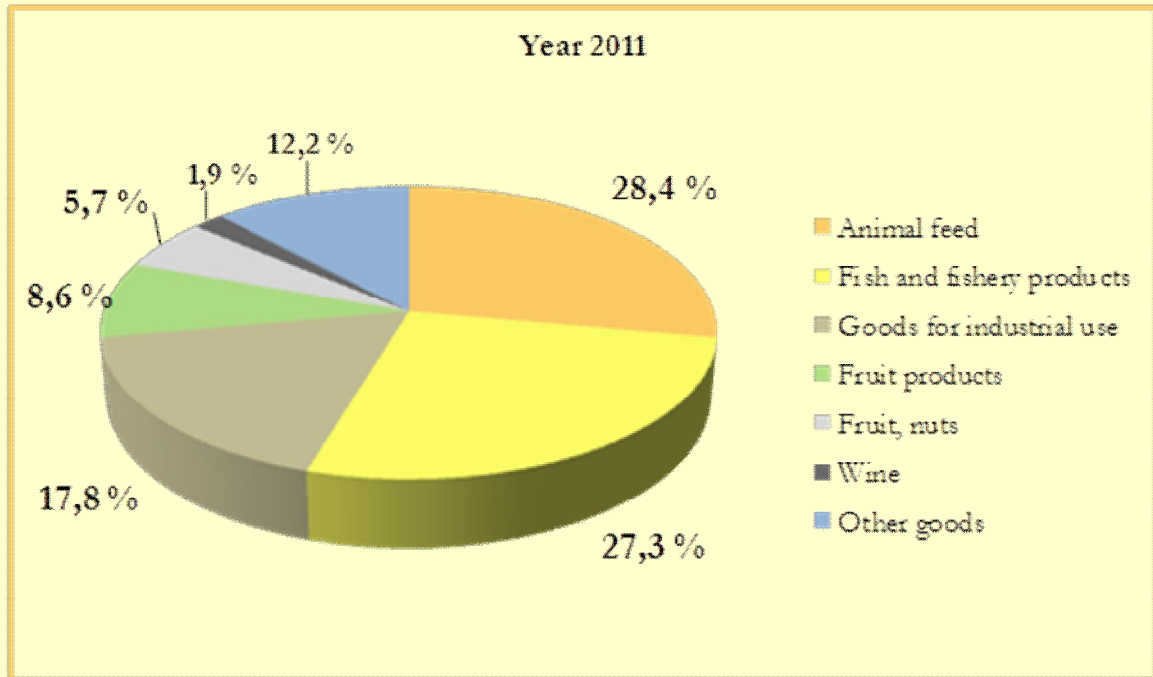
In order to utilise the possibility of importing certain goods from third countries at a reduced or zero rate of customs tariff, in 2011 Latvian merchants submitted 564 tariff quota applications, and of these in 45 cases: after the release of the goods for free circulation. The requested tariff quotas were awarded in full in 556 cases and partially in three cases, rejections due to the exhaustion of the requested quotas were issued in four cases, and in one case the tariff quota application was cancelled as a confirmation of inappropriate origin was presented.



The highest demand in Latvia in 2011 was for tariff quotas on imports of food products and animal feed: animal feed accounted for 28.4% of the total of quantity of goods for which quotas were requested; fish and fishery products (herring, mackerel of Norwegian origin and herring of Icelandic origin) accounted for 27.3%, fruit products (orange juice concentrate of Mexican and Israeli origin) accounted for 8.6%, fruit and nuts (oranges of Egyptian origin and almond nuts of U.S. origin) accounted for 5.7%. Of the total quantity of goods for which tariff quotas were requested in 2011, 17.8% were goods for industrial use (mainly ferrosilicon of Ukrainian origin), and 12.2% were other goods.

Through the utilisation of the possibility to import a certain quantity of goods into the European Union in a certain period applying a reduced or zero rate of customs tariff, some 2,667 tonnes of animal feed, 2,566 tonnes of fish and fish products, 1,645 tonnes of ferrosilicon, 813 tonnes of manioc starch, 812 tonnes of orange juice, 336 tonnes of oranges, 171 tonnes of almonds, 91 tonnes of pastry products, 36 tonnes of garlic, 179 hectolitres of wine and other goods were imported into Latvia in 2011.

## Distribution of quota goods



### Promotion of external trade circulation

Customs initiatives both at EU level and national level are geared towards the reduction of administrative obstacles and the promotion of business activity through enabling the use of various types of relief in the customs clearance process, while preserving appropriate customs control.

As part of improving its cooperation with businesses, SRS continues to offer various advantages that facilitate the customs clearance process. In order to accelerate and simplify the processing of customs clearance, merchants are able to receive a permit for simplified procedures for the application of local customs clearance and/or simplified declaration procedure, a permit for the application of the status of an authorised consignor/consignee, as well as an authorised economic operator certificate (AEO).

In order to improve the business environment, by performing scheduled measures, including the necessary amendments to the permits for simplified procedures and customs warehouse holding permits, as of 1 January 2011 merchants have had the opportunity to undergo customs clearance of cargo round the clock at all the designated locations for simplified customs clearance indicated in the permits for simplified procedure and permits for the use of the status of an authorised consignee and authorised consignor.

Title of permit	Number of permits (status) assigned in 2011	Total number of permits (status) in effect
<b>1. Permits for simplified procedures (number)</b>	5	63
1.1. For the application of a simplified declaration procedure	-	43
1.2. For the application of local customs clearance procedures	5	51
<b>2. Permits for the use of the status of an authorised consignee and authorised consignor (number)</b>	10	111
2.1. For the application of the status of an authorised consignee	10	95
2.2. For the application of the status of an authorised consignor	10	99
<b>3. Authorised economic operator (AEO) certificate</b>	5	14

In order to ensure uniform application of practices and regulations in the area of customs, standardise customs services and significantly reduce the time spent on customs clearance, a State Revenue Service Customs Clearance Standard was developed and approved on 27 September 2011. The Customs Clearance Standard stipulates the fundamental principles and requirements of customs clearance and customs control that need to be observed by all customs officials. The Customs Clearance Standard also specifies the time limits for customs clearance operations: for export and import, the minimum customs clearance time is 10 minutes, the average time is 125 minutes and the maximum time is 240 minutes.

### **Most significant customs projects in 2011**

In 2011, the project of the *Development, improvement and maintenance of an electronic customs data processing system (ECDPS)*, submitted by SRS and financed from the EU Funds (funding from the European Regional Development Fund), was approved. The objective of the project is to create a single system for the processing of electronic customs data by putting in place an automated customs clearance process in accordance with the requirements of EU and national regulations, information exchange between merchants and customs authorities, between Latvian customs authorities and the customs authorities of other EU Member States, and between Latvian customs authorities and other public authorities involved in the process of customs clearance and control of goods, thus implementing a digital or paperless customs environment. As part of the implementation of the project, in 2011, requirements were developed for the customs official's interface software of the transit control system, and work was commenced on developing the software in question. The definition of user requirements was also commenced for the processing of several types of customs documents, including the Single Administrative Document (SAD) for import customs procedures and the customs value declaration within the ECDPS. In 2012, the development of ECDPS components will continued, which is scheduled for completion in 2014.

In order to enable the administration of physical customs control in digital form, thus increasing control efficiency, a Customs Physical Control Unit was developed in 2011. Since 2012, the system has been in use by customs officials.

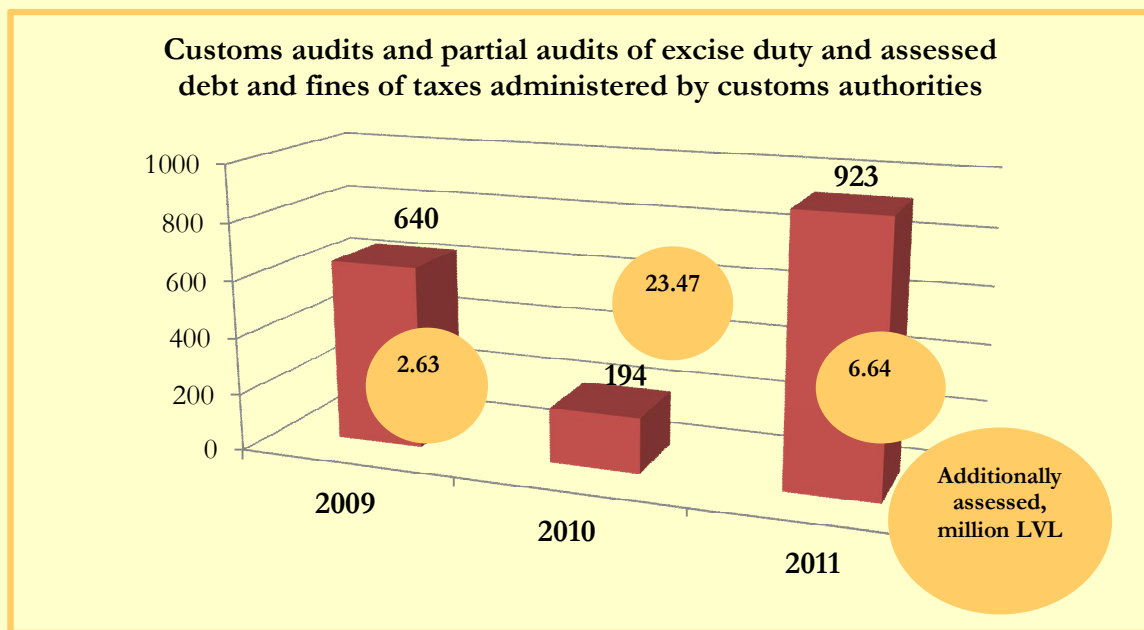
In early 2011, the reconstruction work on the Grebņeva customs control point, begun in the spring of the preceding year, was completed. As a result of the implementation of the modernisation project of the customs control point, a new building for passenger baggage

inspections and a control passage pavilion have been erected, new vehicle axle and platform scales have been installed with a covered area, and a number of auxiliary buildings have been refurbished. Considerable investment has been made in refurbishing the external utility lines.

In order to encourage officials of customs control points to enhance their knowledge and expand their competencies and to reduce potential risks of corruption and conflicts of interest, in 2011, a pilot project of the application of a new rotation principle was implemented at the customs: a customs official would only learn of the customs control point at which he or she is to perform his or her professional duties before the commencement of his or her shift. Over three months, such rotation was applied to the customs officials working at the Grebņeva CCP, Terehova CCP and Rēzekne CCP, i.e., some 200 staff members.

## Performance of customs control measures

### Customs audits and partial audits of excise duty



Of the customs audits performed in the reporting period, 905, or 98%, of the inspections yielded results. This indicator should be viewed positively: customs audits were conducted based on an effective risk analysis.

The increase in the number of customs audits performed was influenced by the number of excise duty audits performed on excisable goods confiscated on the border, the share of which in the number of audits conducted in 2011 was 86%.

### Implementation of a risk management system

To ensure that customs formalities at customs control points take as little time as possible, in 2011 efforts continued towards implementing risk management in the area of customs and making sure that the control at each subsequent level is based on the results of the previous control and includes all the aspects of customs operations.

Already back in 2010, the customs made significant preparations by developing the necessary information systems and technical solutions and merchant modules for the submission and processing of summary declarations required for the performance of a risk analysis prior to the arrival of goods at the customs authority; as a result, summary declarations were successfully introduced starting 1 January 2011.

In 2011, under the leadership of the Risk Management Committee, the existing SRS internal regulations were updated and new ones were drawn up stipulating the circulation of international risk information. Analytical support was provided to customs control points 24 hours a day, seven days a week, thus facilitating the effective and rational use of the resources involved in customs control at the SRS customs authorities. As a result of the implementation of risk management measures, cooperation with law enforcement authorities both at the national and international level was improved.

### Combating of organised crime

In 2011, SRS significantly limited the activities of organised crime groups in the area of customs on 28 occasions; on ten of these occasions, this happened in cooperation with other law enforcement agencies.

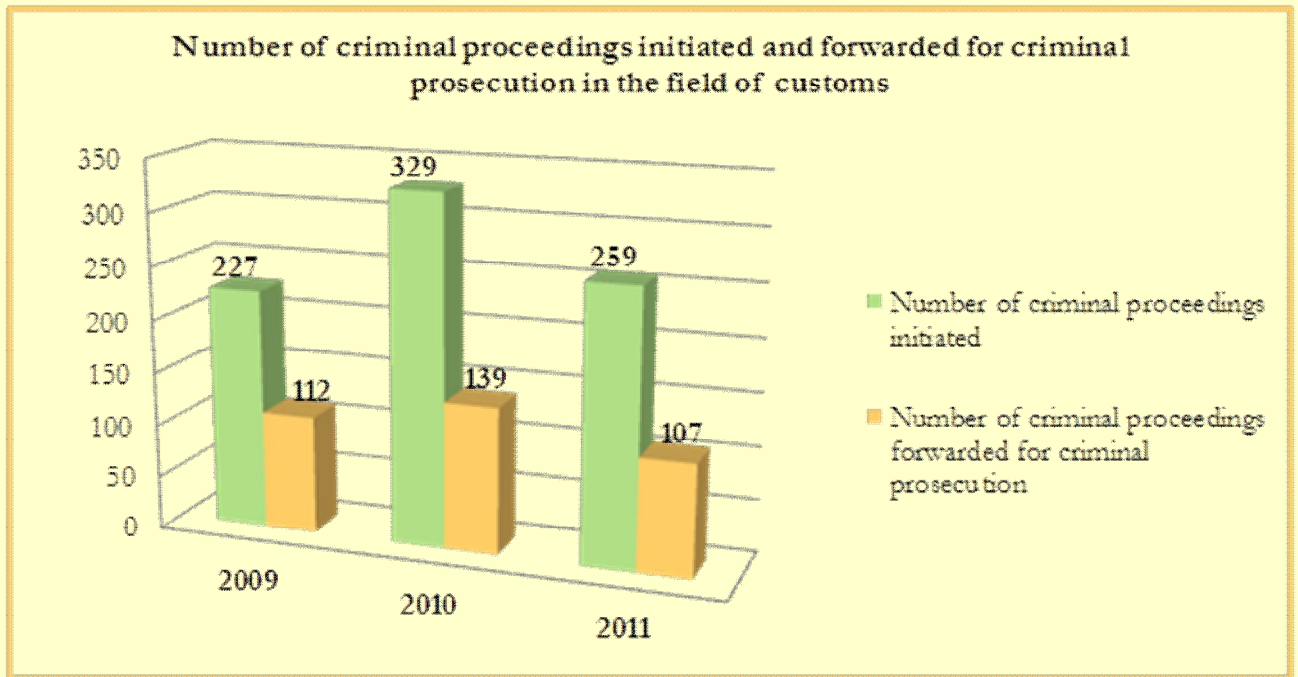
Combating of organised crime	2009	2010	2011
<b>1. Number of cases of limiting organised crime groups</b>	34	53	<b>28</b>
<b>2. Losses caused to organised crime groups in monetary terms (in cases where calculations are possible) (LVL)</b>	4 134 725	18 749 413	1 566 178
2.1 direct losses: goods and other valuables seized (LVL)	467 180	3 610 660	914 720
2.2 indirect losses: loss of profits of criminal groups (LVL)	3 667 545	15 138 753	651 458
<b>3. Losses caused to the State in monetary terms (in cases where calculations are possible) (LVL)</b>	3 385 959	5 725 015	3 844 588

In 2011, the criminal proceedings initiated by SRS customs authorities prevented damages to the State (where calculation is possible) in the amount of LVL 8.1 m.

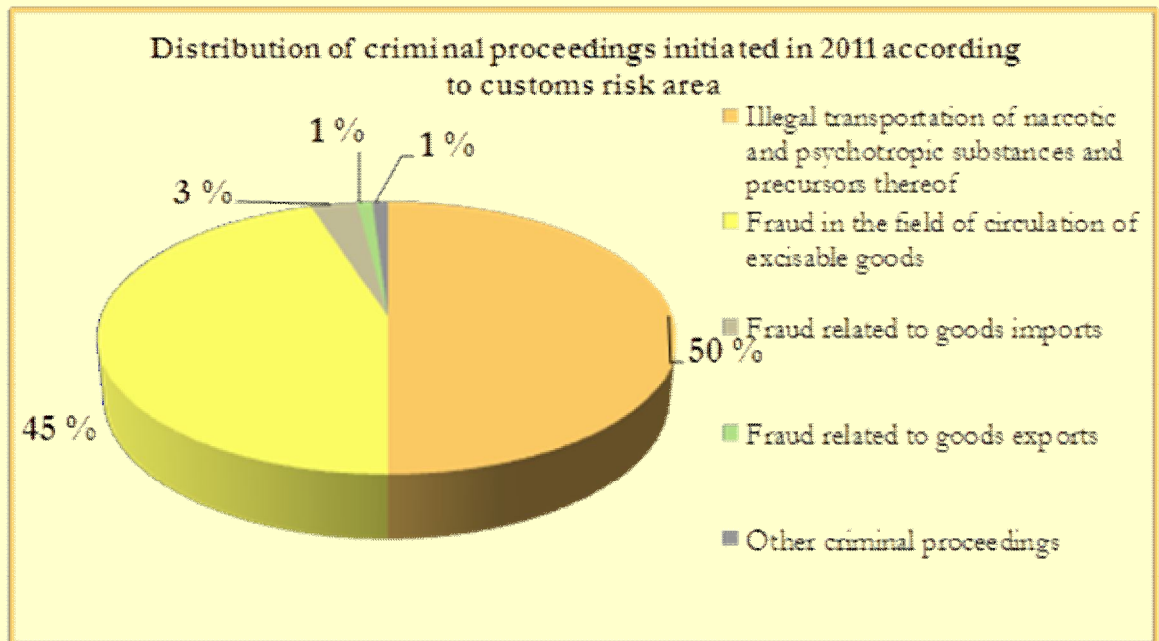
In 2011, 259 criminal proceedings were initiated in the area of customs, and 107 criminal proceedings against 113 persons were forwarded for criminal prosecution.

Compared to the preceding year, the number of criminal proceedings initiated in 2011 dropped by 21%, while the number of criminal proceedings forwarded for criminal prosecution, by 23%.

This reduction can be explained by the decrease in the number of criminal proceedings within the customs risk area of illegal transportation of narcotic and psychotropic substances and their precursors. The greatest decrease has been in the criminal proceedings where the volume of narcotics seized is between 1 and 10 grams and in the transportation of which postal services or air transport has been used.



Smuggling of narcotic and psychotropic substances and smuggling of excisable goods (specifically, tobacco products) still account for the largest share of the criminal proceedings that have been initiated.



\* Other criminal proceedings: document forgeries, abuse of official position.

### **Investigation in criminal proceedings with respect to the smuggling of narcotic and psychotropic substances**

In 2011, 130 criminal proceedings were initiated at SRS in the customs risk area of the illegal transportation of narcotic and psychotropic substances and their precursors.

As a result of control measures performed by SRS customs officials, including officers in canine units using service dogs, 87.92 kg of various narcotic substances were seized.

### Narcotic and psychotropic substances seized

Narcotic or psychotropic substances seized as part of criminal proceedings initiated by customs authorities	2010		2011	
	Substances seized (grams)	Number of instances involving the seizing of substances	Substances seized (grams)	Number of instances involving the seizing of substances
Hashish	175.19919	52	76 720.9021	22
Marijuana	27 791.8908	102	5 622.8525	77
Methylone	2 670.991	3	1 990	1
4-methyl-ethyl cathinone	-	-	1 876.62	1
<i>Mitragyna speciosa (kratom)</i>	-	-	909.656	1
Methyl-ethyl cathinone	-	-	501.9	1
Ephedrine	-	-	217.6219	1
Methamphetamine	-	-	69.9705	1
JWH-250 (2-2-methoxyphenyl-1-1-pentylindol-3-yl-ethanone)	-	-	8.7336	1
4-methylmethcathinone	-	-	1.8158	1
Heroin	0.084	1	1.0025	1
MDMA	0.02	1	0.8161	1
Buprenorphine	-	-	0.176	1
Cocaine	57 551.2978	5	0.1215	1
Clonazepam	-	-	0.1	1
Amphetamine	-	-	0.02	1
Marijuana (not dried)	90 778	1	-	-
4-methylephedrone	11 456.6268	5	-	-
3-fluoromethcathinone	8 001.1723	5	-	-
Methylenedioxypropylvalerone	2 002.0259	3	-	-
JWH-210 (1-pentyl-3-(4-ethyl-1-naphthoyl)indole)	1 784.618	1	-	-
Coca leaves	252.66	1	-	-
JWH-018	73.2329	2	-	-
JWH-018 and JWH-250	24.223	1	-	-
Substances containing JWH	13.4879	1	-	-
Mephedrone	7.8052	1	-	-
Hallucinogenic mushrooms	5.2209	1	-	-
Substances containing 4-methylephedrone	1.1853	1	-	-
1-3-chlorophenylpiperazine (mCPP)	0.1778	2	-	-
LSD blotters	7 pcs.	1	-	-
<b>TOTAL</b>	<b>202 589.919</b>	<b>190</b>	<b>87 922.3085</b>	<b>113</b>

## Most significant criminal proceedings regarding the smuggling of narcotic or psychotropic substances, initiated in 2011

On 10 January 2011, criminal proceedings were initiated at SRS regarding the fact of possible smuggling of narcotic or psychotropic substances that was established on 30 December 2010 at the mail sorting facility of SJSC Latvijas pasts in Riga, while examining a package that contained 909.656 grams of the substance *Mitragyana speciosa (kratom)*. On 29 April 2011, the criminal proceedings were forwarded for criminal prosecution.

On 11 February 2011, criminal proceedings were initiated at SRS regarding the fact of possible smuggling of narcotic or psychotropic substances, detected in Grenctāle by SRS customs officials, including a canine unit officer with a service dog, when inspecting the luggage of a passenger on the Vilnius-Riga coach and discovering 4.135 kg of marijuana and 1,466 marijuana cigarettes.

On 11 May 2011, criminal proceedings were initiated at SRS regarding the possible illegal importation of narcotic or psychotropic substances into the customs territory of the Republic of Latvia, which was detected on 11 May 2011 in Riga when performing a customs inspection of a package sent from China by courier, which contained 1,876.62 grams of 4-methylethylcathinone.

On 20 May 2011, criminal proceedings were initiated at SRS regarding the possible smuggling of narcotic or psychotropic substances, detected in Grenctāle by SRS customs officials, including a canine unit officer with a service dog, when inspecting a vehicle and discovering 1 kg of marijuana in it.

On 6 July 2011, criminal proceedings were initiated at SRS regarding the possible transportation of narcotic or psychotropic substances across the national border of the Republic of Latvia, which was detected on 5 July 2011 while performing operational activities in a warehouse belonging to a Latvian undertaking at the Riga International Airport and in a shipment from a Mexican company which according to the accompanying documentation had to contain hats, yet discovering jars of capsules which according to expert opinion contained 217.6219 grams of ephedrine.

On 30 July 2011, criminal proceedings were initiated at SRS regarding possible transportation of narcotic or psychotropic substances across the national border of the Republic of Latvia, detected at the mail sorting facility of SJSC Latvijas pasts in Riga, while examining a package sent from Liepāja to Russia that contained 501.9 grams of methylethylcathinone.

On 3 September 2011, criminal proceedings were initiated at SRS regarding the fact of the possible smuggling of narcotic or psychotropic substances, detected on 2 September 2011 at the Grebņeva customs control point by SRS customs officials during a set of operational measures, whereby 76.6 kg of hashish and 36 grams of marijuana were discovered in a vehicle.



On 11 February 2011, on a bus at Grenctāle, 4.135 kg of marijuana and 1,466 marijuana cigarettes were found.



*On 11 May 2011 in Riga, in a courier package from China, 1,876.62 grams of 4-methylethylcathinone were found.*



*On 20 May 2011 in Grenčāle, 1 kg of marijuana was discovered in two vehicles.*



*On 5 July 2011, in a warehouse of a company in Riga, a shipment from Mexico was found to contain capsules with 217.6219 grams of ephedrine.*



*On 30 July 2011 in Riga, in a postal package to Russia, 501.9 grams of methylethylcathinone were found.*

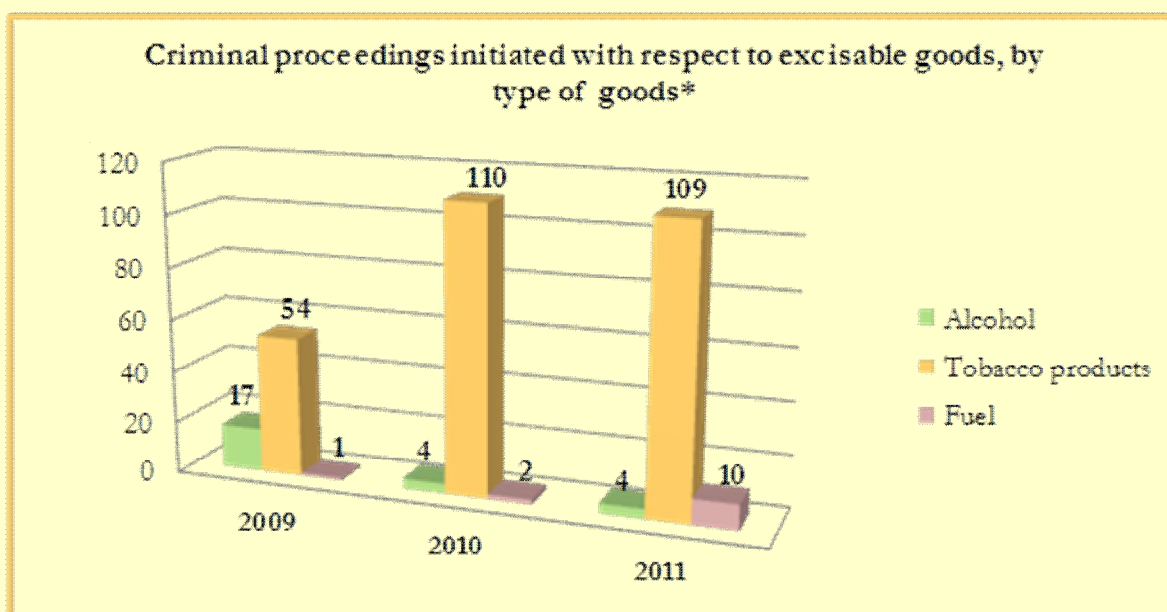


*On 2 September 2011, at the Grebneva customs control point, a car was found to contain 76.6 kg of hashish and 36 grams of marijuana.*

### **Investigation in criminal proceedings regarding excisable goods**

A total of 117 criminal proceedings were initiated for criminal offences relating to excisable goods.

As in the year before, the most criminal proceedings in this area of customs risk were initiated for instances where the object of violations were tobacco products. In comparison with the preceding year, the number of criminal proceedings initiated in 2011 for tobacco product and alcohol-related offences has remained at the 2010 level, whereas the number of criminal proceedings with respect to fuel (mainly for administrative violations recommitted within one year) increased slightly.



\* Multiple types of excisable goods may be the object of the violations within a single criminal proceeding. If criminal proceedings have been initiated regarding cigarettes and fuel, this diagram reflects this both in the section relating to tobacco products and in the section relating to fuel.

As part of the criminal proceedings initiated in 2011, tobacco products were seized that are equivalent to 75.33 m cigarettes (66.9 m cigarettes and 5,900 kg of tobacco [from which 8.43 m cigarettes could be produced]), 680 litres of fuel<sup>2</sup> and 9,600 litres of alcohol.<sup>3</sup>

Compared with the preceding year, the quantity of cigarettes seized has climbed by 12%, the volume of tobacco seized has decreased by 68%, whereas the amount of alcohol seized has grown six-fold (in 2010, 59.72 m cigarettes, 18,240 kg of tobacco and 1,600 litres of alcohol were seized).

Legal violations detected by customs authorities with respect to excisable goods and goods seized in connection therewith	Criminal proceedings
<b>Tobacco product violations</b>	109
Cigarettes seized (million pcs.)	66.9
Tobacco seized (thousands of kg)	5.9
<i>Cigarette equivalent of the tobacco seized (million pcs.)</i>	8.43
Cigarette equivalent of the tobacco products seized (million pcs.)	75.33
<b>Alcohol violations</b>	4
Alcohol seized (thousands of litres)	9.6
<b>Fuel violations</b>	10
Fuel seized (except gas) (thousands of litres)	0.68

### Most significant criminal proceedings regarding excisable goods, initiated in 2011

On 14 January 2011, criminal proceedings were initiated at SRS regarding the fact of the possible smuggling of 1,310,000 Jin Ling cigarettes with Russian Federation excise duty stamps, which was detected on 13 January 2011 during an inspection of a container shipped from China.

<sup>2</sup> Except gas.

<sup>3</sup> This quantity does not include the excisable goods seized in criminal proceedings for re-committed administrative violations within one year detected by the customs authorities.

On 14 January 2011, criminal proceedings were initiated at SRS regarding the fact of the possible smuggling of goods subject to customs clearance: 10,600,000 Jin Ling cigarettes with Russian Federation excise duty stamps, detected on 13 January 2011 at the Free Port of Riga during an inspection of a container shipped from China.

On 14 January 2011, criminal proceedings were initiated at SRS regarding the fact of the possible smuggling of goods subject to customs clearance: 11,000,000 Jin Ling cigarettes with Russian Federation excise duty stamps, detected on 13 January 2011 at the Free Port of Riga during an inspection of a container shipped from China, which according to the accompanying documentation should have contained cotton towels.

On 22 January 2011, criminal proceedings were initiated at SRS regarding the storage within the customs territory of the Republic of Latvia without an authorisation by the customs authorities of goods subject to customs clearance: tobacco manufacturing equipment, 5,900 kg of tobacco and accessories required for the manufacture of tobacco products, which was detected in cooperation with special unit Omega of the State Police while performing an inspection in a building at a former Soviet military base in Naujene Parish.

On 26 March 2011, SRS customs officials detected the illegal importation into the customs territory of the Republic of Latvia of goods subject to customs clearance: 5,756,200 cigarettes (5,506,200 Jin Ling, 240,000 Classic and 10,000 Viceroy) bearing excise duty stamps of the Russian Federation, which were concealed behind decoy goods: sacks containing powdered milk.

On 26 March 2011, criminal proceedings were initiated regarding the discovered fact.

On 7 April 2011, criminal proceedings were initiated at SRS for the importation into the customs territory of the Republic of Latvia of 4,000,000 Pioneer cigarettes without excise duty stamps by submitting forged documents to the customs authorities, which was detected on 6 April 2011 while carrying out in-depth customs measures at a customs warehouse in Bullu Street in Riga.

On 9 April 2011, criminal proceedings were initiated at SRS for the importation of goods subject to customs clearance – 1,723,960 Jin Ling brand cigarettes bearing Russian Federation excise duty stamps – into the customs territory of the Republic of Latvia from Belarus, via Silene customs control point, concealing the goods from customs control in a hidden compartment created in the semi-trailer of a vehicle, which was detected on 8 April 2011.

On 25 July 2011, criminal proceedings were initiated at SRS with respect to 4,424,440 cigarettes discovered on the premises of a warehouse in Vecumnieki Municipality during an inspection on 23 July 2011 (2,525,000 Jin Ling cigarettes with Russian Federation excise duty stamps, 1,507,000 Superkings and 392,440 Regal without excise duty stamps), concealed in metal jars labelled “Sweet Peas” and “Velluto Coffee Beans” containing small quantities of maize or coffee beans.

On 2 August 2011, criminal proceedings were initiated at SRS regarding 5,400,000 Jin Ling brand cigarettes bearing no excise duty stamps, discovered in a shipment declared to contain hygiene goods during customs inspections at a customs warehouse in Bullu Street, Riga, on 28 and 29 July 2011.

On 6 October 2011, criminal proceedings were initiated at SRS regarding the possible fact of smuggling of goods subject to customs clearance: 8,990,000 Jin Ling and Winston brand cigarettes bearing excise duty stamps of the Russian Federation, detected by SRS customs officials on 12 August 2011 at the Free Port of Riga during the inspection of a container shipped from the United Arab Emirates which, according to the accompanying documentation, was to contain tiles.

On 12 October 2011, criminal proceedings were initiated at SRS regarding the possible fact of smuggling of goods subject to customs clearance: 8,240,000 M1 cigarettes bearing no excise duty stamps, detected on 7 October 2011 at the Free Port of Riga during the inspection of a container shipped from the United Arab Emirates which, according to the accompanying documentation, was to contain light bulbs.

On 24 October 2011, criminal proceedings were initiated at SRS regarding the possible fact of smuggling of goods subject to customs clearance using forged documents: 4,000,000 Leningrad cigarettes bearing no excise duty stamps, detected on 21 October 2011 at the Free Port of Riga.



*On 13 January 2011, 22,910,000 cigarettes were discovered in three cargo containers shipped from China.*



*On 22 January 2011, an illegal cigarette manufacturing facility was discovered in Naujene Parish.*



*On 6 April 2011, 4,000,000 cigarettes were found at a customs warehouse in Bulļu Street in Riga.*



*On 8 April 2011 at the Silene customs control point, 1,723,960 cigarettes were discovered in a hidden compartment within the semi-trailer of a vehicle.*



*On 23 July 2011 in Vecumnieki Municipality, 4,424,440 cigarettes were discovered on the premises of a warehouse.*

### **Administrative violations**

Given the situation in the country with high levels of smuggling and shadow economy, one of the most important tasks in 2011 was combating the shadow economy and ensuring fair competition. SRS customs authorities participated in the implementation of these measures in accordance with their area of responsibility by carrying out control measures and thus preventing the importation of contraband into the country and reducing illegal trading activities. The implementation of customs control measures produced good results in 2011: the volume of illegally transported cigarettes and fuel seized has grown considerably.

In 2011, SRS customs authorities drew up 1,527 administrative violation reports for 1,532 administrative violations,<sup>4</sup> of which 80% pertained to violations involving excisable goods, and especially tobacco products (1,101 administrative violations).

In administrative violation matters, 20.17 m cigarettes, 3,500 litres of alcohol, 40,110 litres of fuel and other goods were seized.

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<sup>4</sup> Instances were identified during the reporting period where administrative violation reports were drawn up regarding more than one administrative violation.



*On 19 March 2011 at the Grebneva customs control point, 243,680 More brand cigarettes were discovered in the tyres of two lorries.*



*On 4 April 2011 at the Silene customs control point, 248,000 Viceroy brand cigarettes were found concealed in the fuel tanks and tyres of lorries.*



*On 12 April 2011 at the Silene customs control point, SRS customs officials discovered a hiding place – a double floor – within the semi-trailer of a lorry that contained 280,000 Saint George brand cigarettes.*



*On 11 May 2011 at the Pāternieki customs control point, during an in-depth control of a lorry SRS customs officials discovered that a double floor had been installed in the semi-trailer. It contained a cache of 294,800 Fest brand cigarettes.*



*On 2 June 2011 at the Pāternieki customs control point, SRS customs officials discovered that 203,600 Fest, Premjer, Minsk and Black brand cigarettes had been concealed in the fuel tank of a lorry.*



*On 7 November 2011 at the port of Ventspils, while performing the customs control of a lorry that had entered Latvia from Russia on ferry Transrussia, SRS customs officials discovered a cache created in the floor of the refrigerated trailer containing 438,800 Fest and LD brand cigarettes.*



On 22 November 2011 at the Silene customs control point, SRS customs officials discovered hiding places created in the walls of a cargo van containing 98,220 Winston brand cigarettes.

Legal violations detected by customs authorities with respect to excisable goods and goods seized in connection therewith	Administrative violation reports
<b>Tobacco product violations</b>	1 101
Cigarettes seized (million pcs.)	20.17
Tobacco seized (thousands of kg)	-
<i>Cigarette equivalent of the tobacco seized (million pcs.)</i>	-
Cigarette equivalent of the tobacco products seized (million pcs.)	20.17
<b>Alcohol violations</b>	36
Alcohol seized (thousands of litres)	3.5
<b>Fuel violations</b>	128
Fuel seized (except gas) (thousands of litres)	39.76

Legal violations detected by customs authorities with respect to excisable goods and goods seized in connection therewith	Criminal proceedings	Administrative violation reports	TOTAL
<b>Tobacco product violations</b>	109	1 101	1 210
Cigarettes seized (million pcs.)	66.9	20.17	87.07
Tobacco seized (thousands of kg)	5.9	-	5.9
<i>Cigarette equivalent of the tobacco seized (million pcs.)</i>	8.43	0	8.43
Cigarette equivalent of the tobacco products seized (million pcs.)	75.33	20.17	95.5
<b>Alcohol violations</b>	4	36	40
Alcohol seized (thousands of litres)	9.6	3.5	13.1
<b>Fuel violations</b>	10	128	138
Fuel seized (except gas) (thousands of litres)	0.68	39.76	40.44

In 2011, 151 vehicles were confiscated (143 motor vehicles and eight semi-trailers) that had been used for moving contraband. The amendments providing for the possibility of confiscating the vehicle used in the illegal moving (transportation) of goods in Section 201.12 of the Latvian Administrative Violations Code took effect on 23 June 2010, and 49 vehicles were confiscated by the end of the year.

In 2011, customs canine unit officers and service dogs detected violations in 454 instances. As a result of control measures involving service dogs (including in collaboration with the State Police, the State Border Guard and the Prison Administration), some 95 kg of narcotic substances were seized. Tobacco product-detecting service dogs helped to uncover and seize 2.87 million cigarettes of various brands.

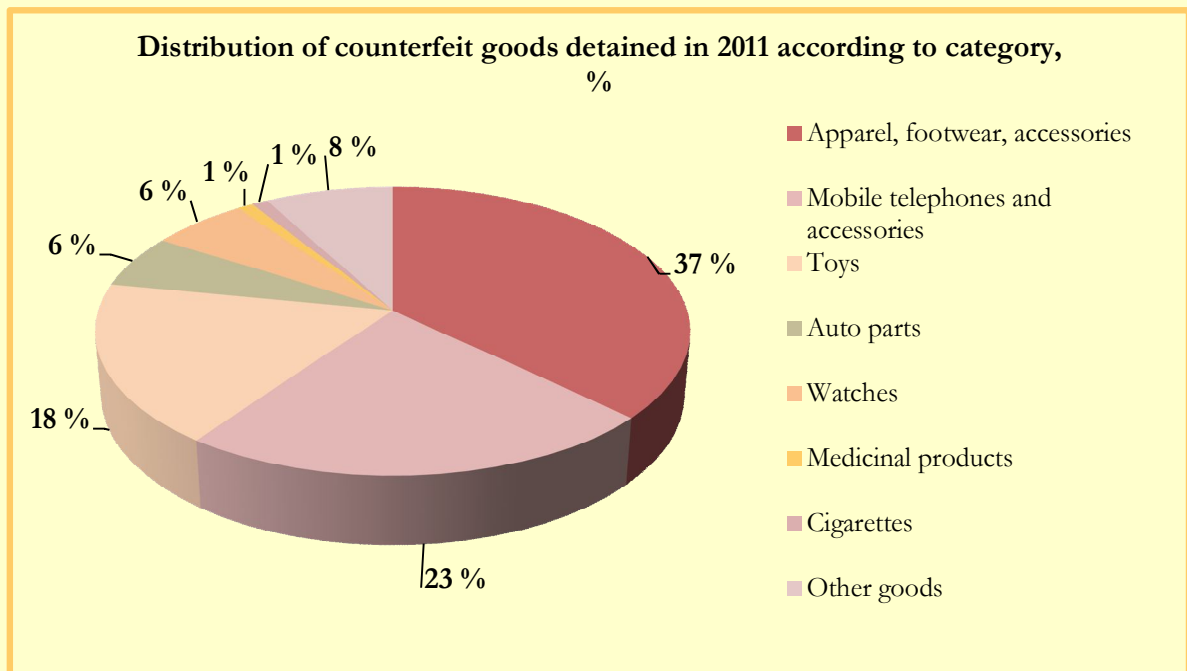
In late 2011, two new service dogs were acquired that will be trained to detect cash.

### Protection of intellectual property

In 2011, as a result of customs control measures, violations of intellectual property rights were prevented on 84 occasions where goods labelled with counterfeit trademarks were moved across the border and subjected to customs procedures. In comparison with 2010, the number of instances where counterfeit goods were detained dropped by 31%.

In 2011, SRS customs officials detained 2,041,241 units of counterfeit goods: footwear, apparel, accessories, cigarettes, mobile telephones, toys, medicinal products and other goods labelled with various counterfeit trademarks, valued at about LVL 1.28 m.

A large portion of the detained counterfeit goods were transported from China and the United Arab Emirates by sea or by air, except mobile telephones, which were predominantly detected in mail and courier packages received from Hong Kong.



### Control of the declaration of cash funds

In order to prevent undeclared cash from being brought into the Republic of Latvia from non-member states of the EU and its being taken out of the Republic of Latvia to non-member states of the EU, the SRS customs authorities ensure the control of the movement of cash funds. On the external EU borders, persons must declare cash exceeding EUR 10,000 in amount or the equivalent in another currency.

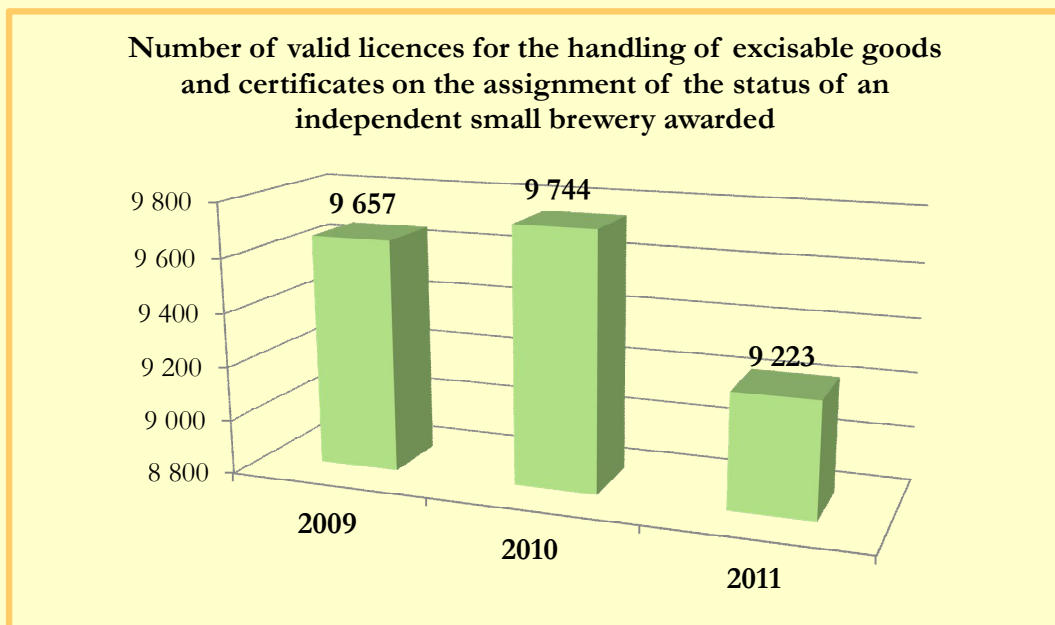
In 2011, 332 cash declarations were submitted at Latvian border crossings for the total amount of EUR 77.63 m, which is 200 declarations and EUR 35.97 m more than in the year before. In 2011, 230 cash declarations were lodged upon arrival in Latvia for the total amount of EUR 19.74 m, which is 158 declarations and EUR 10.45 m more than in the preceding year. Upon departing from Latvia, 102 cash declarations were lodged in 2011 for the total amount of EUR 57.89 m. Compared with 2010, the number of declarations has increased by 62, and the amounts declared: by EUR 25.52 m.

In 2011, three violations were detected in connection with the non-declaration or false declaration of cash. On 2 August 2011 at the Riga International Airport, during the examination of the baggage of passengers on the flight Moscow-Riga, the baggage of a Russian citizen was found to contain USD 19,800, whereas on 5 November, an Azeri citizen's baggage was found to contain EUR 19,945 and USD 10,050. On 21 December 2011, in collaboration with the Air Safety Service of the airport, the baggage of a Lithuanian citizen heading from Riga to Istanbul was found to contain undeclared USD 225,000. In all three instances, the maximum administrative penalty of LVL 200 was imposed on the individuals.

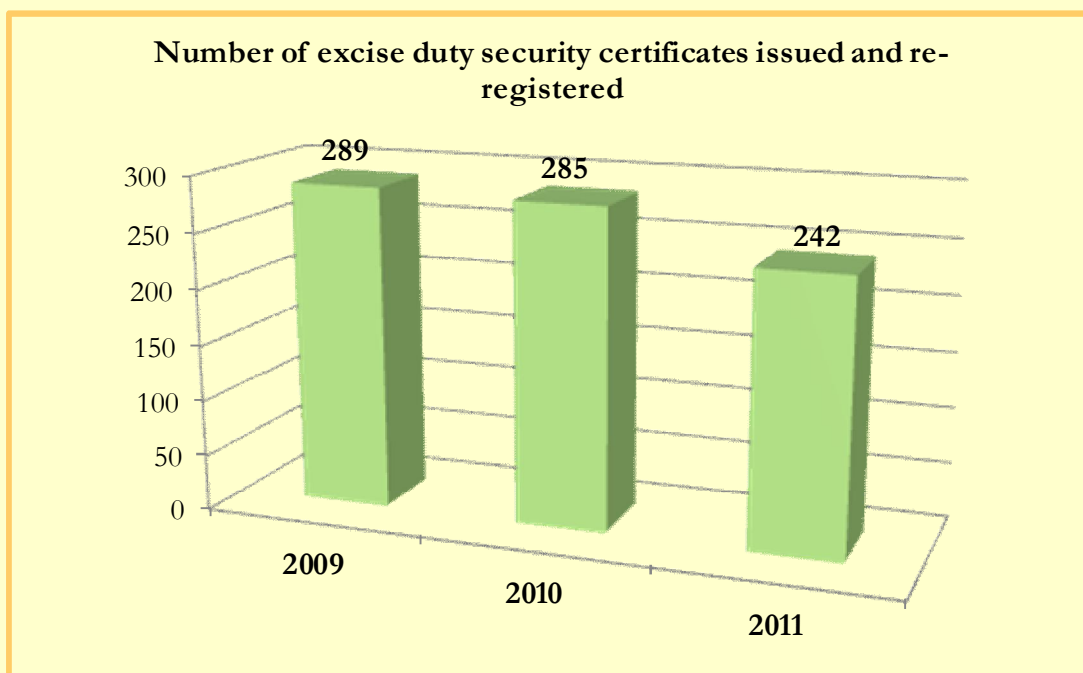
## MONITORING OF THE CIRCULATION OF EXCISABLE GOODS

### Licensing

In 2011, a total of 1,969 licences, permits, references and certificates for the handling of excisable goods were revoked, of these, 773 documents were revoked for violations of regulatory enactments and 1,196 on the basis of applications by merchants.



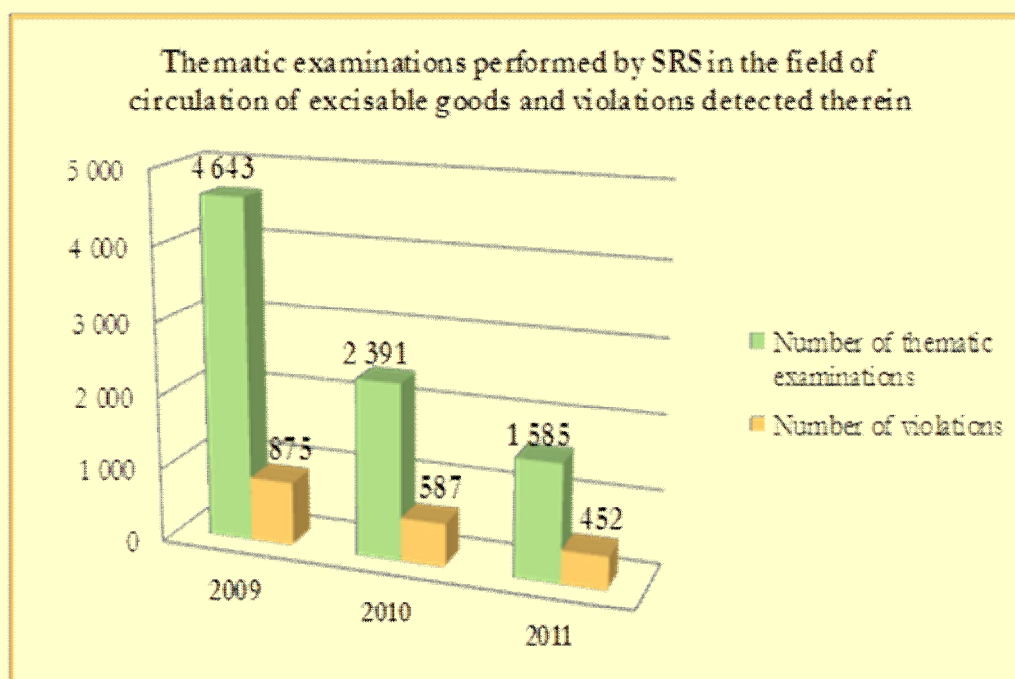
## Issuance of excise duty security certificates



In 2011, a total of 24 general excise duty security certificates were revoked, of those, 10 certificates were revoked for violations of regulatory enactments and 14 on the basis of applications by merchants or security providers.

Eleven excise duty security certificates were suspended in 2011.

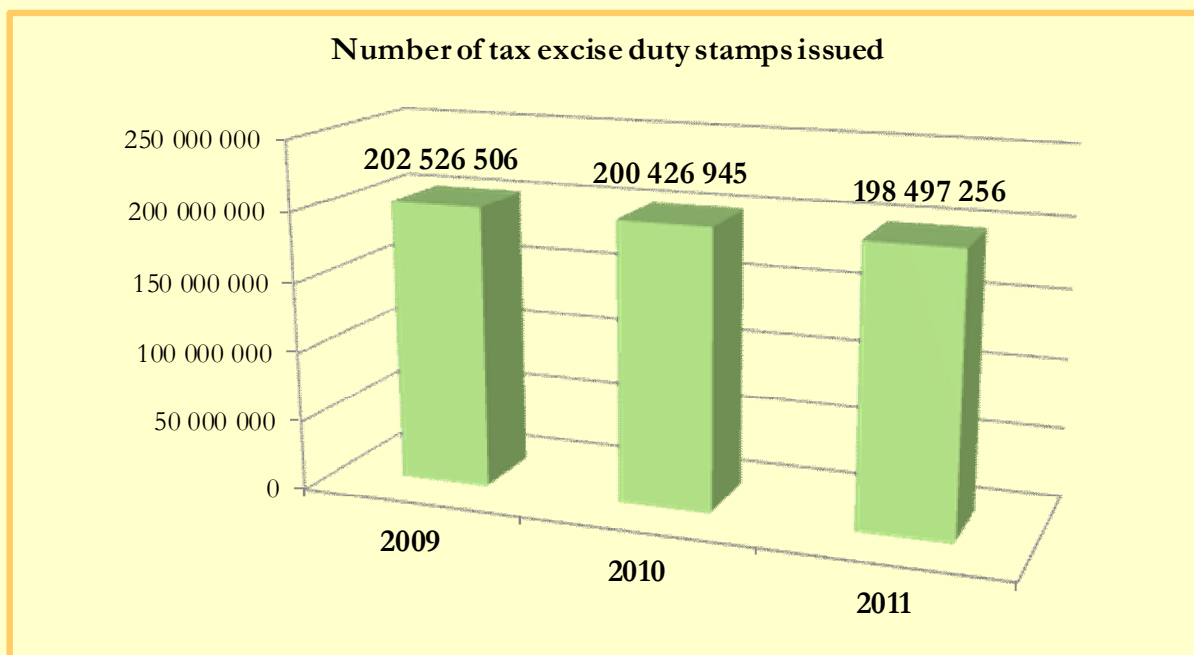
## Supervision



In 2011, fines were imposed for excisable goods violations in the amount of LVL 138,410.

The quantity of goods confiscated in 2011 was as follows: 7,244 litres of petroleum products, 3,604.41 litres of alcoholic beverages, 2,947,664 cigarettes.

## Issuance of excise duty stamps



In 2011, 85,883,086 excise duty stamps were issued for labelling alcoholic beverages and 112,614,170 excise duty stamps for labelling tobacco products.

The reduction in the number of excise duty stamps issued in 2011 can be explained by the increase of excise duty on alcoholic beverages and the fact that demand for beer-based alcoholic cocktails, which are not labelled with excise duty stamps, has risen.

The climb in the prices of those products and the decline of overall economic indicators and the purchasing power of consumers are the main factors affecting the circulation of alcoholic beverages and tobacco products.

## Movement of excisable goods

Stage two of the excise movement and control system (EMCS) has been implemented in accordance with the timeframe prescribed by EC DG TAXUD, thus expanding the possibilities of moving excisable goods in commercial transactions by merchants using deferred payments of the duty and improving the monitoring and administrative cooperation capabilities among Member States.

In 2010, SRS information systems recorded a total of 82,369 accompanying documents and electronic administrative documents for excisable goods. Given that on 1 April 2010 an Excise Movement and Control System was introduced, since 31 December 2010 only electronic administrative documents have been used for moving excisable goods.

In 2011, a total of 85,666 electronic administrative documents were recorded in the Excise Movement and Control System (EMCS).

# PRE-TRIAL DISPUTE ADJUDICATION AND RESULTS OF COURT PROCEEDINGS

**Decisions adopted as a result of pre-trial dispute adjudication and settlement contracts concluded (number)**

Type of decision	2009	2010	2011
<b>Tax dispute matters</b>	629	1 166	1 390
<b>Administrative violation matters</b>	312	256	547
<b>Matters relating to the enforcement of overdue tax payments</b>	110	284	216
<b>Other dispute matters</b>	185	232	257
<b>Total</b>	<b>1 236</b>	<b>1 938</b>	<b>2 410</b>
<b>Settlement contracts concluded</b> regarding the settlement of payments assessed as a result of tax control	53	33	61

If one analyses the number of decisions adopted in 2011 as a result of the adjudication of pre-trial disputes, when this is compared with the preceding period, i.e., 2010, it can be concluded that the number of dispute applications and complaints and, respectively, the number of decisions adopted in the dispute proceedings in 2011 have risen: i.e., 472 (or 24.36%) more decisions were adopted in 2011 compared with the preceding year. A rise in the number of decisions adopted as a result of dispute applications and complaint review can be observed in nearly all decision categories, except in matters of enforcement of overdue tax payments. The reasons for the increase or decrease in the number of each particular type of decision have been indicated separately.

## **Adjudication of tax disputes**

The adjudication of tax disputes comprises the review of applications to dispute decisions adopted as a result of tax and customs audits and the review of applications to dispute decisions adopted in matters of tax overpayment and refunds.

**Decisions adopted as a result of the adjudication of tax dispute matters (number)**

	2009	2010	2011
<b>Left unchanged:</b>	470 (74.7%)	707 (60.6%)	786 (56.6%)
incl. simultaneous additional assessments	23	15	34
<b>Revoked:</b>	35 (5.5%)	187 (16%)	245 (17.6%)
incl. additionally assessed	3	5	4
ordered to be re-adjudicated	2	98	135
<b>Revoked in part:</b>	101 (16.1%)	190 (16.4%)	229 (16.4%)
incl. simultaneous additional assessments	15	23	36
<b>Decision taken to not review a complaint</b>	23 (3.7%)	57 (4.9%)	18 (1.2%)
<b>Other (resumption of administrative proceedings declined; resume administrative proceedings, re-adjudicate a matter; recalculation performed in</b>		25 (2.1%)	112 (8%)

accordance with a court judgment, etc.)			
<b>Total</b>	<b>629</b>	<b>1166</b>	<b>1390</b>

When analysing the decisions adopted as a result of the adjudication of tax disputes in 2010 and 2011, it can be concluded that, in 2011, the number of applications made to SRS in tax dispute matters has increased by 224 complaints (19.2%).

The reasons for the rise in the number of dispute applications remain the same: an increase in the number of decisions taken as a result of controls by the tax administration (inspections, audits), deficiencies in the regulatory framework of taxation that permit various interpretations of legal provisions and cause ambiguity in the application of legal norms, and variable case-law.

### Adjudication of administrative violation matters

#### Decisions adopted as a result of the adjudication of administrative violation matters (number)

	2009	2010	2011
<b>Left unchanged</b>	220 (70.5%)	217 (84.8%)	303 (55.4%)
<b>Revoked:</b>	45 (14.4%)	17 (6.6%)	170 (31.1%)
incl.: matter terminated	16	3	147
matter forwarded for re-adjudication	13	9	12
verbal reproof made	16	5	12
<b>Amended:</b>	21 (6.7)	4 (1.6%)	39 (7.1%)
<b>Complaint left without adjudication</b>	26 (8.4%)	18 (7%)	33 (6%)
<b>Total</b>	<b>312</b>	<b>256</b>	<b>547</b>

Administrative violation matters was the only category of matters in which a reduction in the number of complaints was observed in 2010, compared with 2009. However, in 2011, the number of complaints in this particular category rose very rapidly. Compared with the 2010 figures, the number of applications has grown by 291 (113.7%).

The increase in the number of complaints is a consequence of a more active involvement by SRS with persons who have not fulfilled or are not fulfilling the obligations prescribed by regulatory enactments in areas falling within SRS's scope of supervision: chiefly in the administration and control of taxes and customs and the circulation of excisable goods.

In 2011, the percentage of those decisions that are left unchanged as a result of the appeals process has declined. The number of amended decisions, which in terms of percentage constitutes 7.1% and approaches the 2009 figure, indicates the number of instances where the SRS Director General revokes the administrative penalties imposed or reduces the amount of the penalty applied. In 2010, this number was lower, as in most cases the persons held administratively liable were subjected to the lowest possible administrative penalties from the start, upon assessing the ability of the liable persons to pay them given the general trends in the national economy.

In turn, the number of revoked decisions in 2011 (31.1%) is significantly greater than in 2009 (14.4%) and in 2010 (6.6%), which has to do predominantly with procedural violations in the administrative proceedings and less with the insufficiency of evidence to substantiate the constituents of an administrative violation. The procedural violations detected were mainly connected with the rapid increase of instances where proceedings were initiated in administrative

violation matters and an incomplete record-management process, whereby not all compulsory steps were carried out.

### Adjudication of disputes in matters of enforcement of overdue tax payments

#### Decisions adopted as a result of the adjudication of matters of enforcement of overdue tax payments (number)

Decision outcome	2009	2010	2011
<b>Left unchanged</b>	40 (36.4%)	183 (64.4%)	130 (60.2%)
<b>Revoked</b>	38 (34.6%)	46 (16.2%)	25 (11.6%)
<b>Revoked in part</b>	24 (21.8%)	17 (6.0%)	24 (11.1%)
<b>Decision taken to not review a complaint</b> (leave without adjudication, decline to adjudicate on merits)	8 (7.2%)	38 (13.4)	37 (17.1)
<b>Total</b>	<b>110</b>	<b>284</b>	<b>216</b>

When the decisions adopted in 2010 and 2011 as a result of the adjudication of matters of the enforcement of overdue tax payments are analysed, it can be concluded that the number thereof has declined significantly in 2011, i.e., by 68 complaints (-23.94%).

### Adjudication of other disputes

SRS also reviews disputes with respect to decisions adopted by SRS structural units in the following cases:

- regarding exclusion from the register of VAT taxable persons;
- regarding refusal to be entered into the register of VAT taxable persons;
- regarding refusal to be registered as a payer of fixed PIT;
- regarding refusals to award a time extension on the payment of taxes;
- regarding the suspension of economic activity;
- regarding refusals to direct amounts paid by a taxpayer;
- regarding refusals to accept or correct tax returns (declarations);
- other decisions within the scope of authority of SRS.

#### Decisions adopted as a result of the adjudication of other dispute matters (number)

	2009	2010	2011
<b>Left unchanged</b>	123 (66.5%)	151 (65.1%)	113 (44%)
<b>Recognised as lawful</b> (executed decisions)	31 (16.7%)	34 (14.7%)	58 (22.6%)
<b>Revoked</b>	19 (10.3%)	30 (12.9%)	62 (24%)
incl. forwarded for re-adjudication	9	14	28
<b>Amended</b>	3 (1.6%)	2 (0.9%)	5 (2%)
<b>Left without adjudication</b>	9 (4.9%)	15 (6.5%)	19 (7.4%)
<b>Total</b>	<b>185</b>	<b>232</b>	<b>257</b>

The number of appeals in other dispute matters in 2011, compared with 2010, increased by 25 (10.76%).

Hence the volume of activity in this category of matters has not changed significantly. The majority of the matters adjudicated consists of matters on the extension of payment deadlines, followed by matters regarding the determination of micro-enterprise tax regime and matters relating to the entry into or exclusion from the VAT register.

In 2011, the number of decisions left unchanged decreased and the number of revoked decisions increased. The decisions revoked in matters on time extensions for payment are linked to the insufficient substantiation of the initial decisions; in the matters relating to the application of the micro-enterprise tax regime: both with erroneous interpretations of the regulatory enactments governing the payment of said tax and with changes in factual circumstances in the matters under adjudication, which subsequently served as grounds for different decisions to be adopted, i.e., ones more favourable towards private individuals.

As the base of regulatory enactments on taxation expands, there is also an increase in the number of instances where disputes arise; thus, in effect, the variety and complexity of the matters being adjudicated are constantly growing.

#### **Results of court proceedings in matters of tax surcharges in which court rulings have taken effect**

	Completed matters				Tax payments to be paid into the State budget as per court ruling
	Total	of these			
		won	partial outcome	lost	
<b>2009</b>	355	294 (83%)	15 (4%)	46 (13%)	LVL 49.1 m
<b>2010</b>	311	277 (89%)	13 (4%)	21 (7%)	LVL 12.6 m
<b>2011</b>	274	202 (74%)	16 (6%)	56 (20%)	LVL 10.7 m

#### **Results of court proceedings in other dispute matters in which court rulings have taken effect**

Other dispute matters comprise the results in administrative violation matters, matters of the enforcement of overdue tax payments, matters regarding applications on the non-issuance, revocation and suspension of special permits (licences), and matters regarding the compensation of losses.

	Completed matters			
	Total	of these		
		won	partial outcome	lost
<b>2009</b>	229	167 (73%)	25 (11%)	37 (16%)
<b>2010</b>	198	143 (72%)	11 (6%)	44 (22%)
<b>2011</b>	158	120 (76%)	18 (11%)	20 (13%)

# INTERNATIONAL COOPERATION

International cooperation, administrative cooperation and information exchange form an integral part of SRS's routine activities. As economic activity expands under the effects of globalisation processes, there is a greater need to focus increasingly on aspects of international cooperation.

## Tax administration

### Administrative cooperation and information exchange

In accordance with the binding EU regulations, including those pertaining to information exchange on direct and indirect taxation, SRS ensures regular administrative cooperation with other EU Member States.

There is a constant exchange of information in the area of direct taxation as part of international agreements, whereby information is exchanged actively and assistance is provided with tax collection. In 2011, cooperation took place within the framework of 51 Conventions on the Avoidance of Double Taxation and the Prevention of Tax Evasion. Latvia has entered into such Conventions (which have come into effect) with Norway, Sweden, Estonia, Denmark, Finland, Poland, Lithuania, Canada, the Czech Republic, the Netherlands, Iceland, Ukraine, Belarus, Great Britain, China, Germany, Uzbekistan, Ireland, the United States of America, Moldova, Malta, Slovakia, Singapore, France, Croatia, Armenia, Switzerland, Slovenia, Romania, Kazakhstan, Belgium, Portugal, Turkey, Spain, Hungary, Bulgaria, Greece, Georgia, Azerbaijan, Israel, Luxembourg, Serbia, Montenegro, Austria, Macedonia, Albania, Italy, Kyrgyzstan, Tajikistan, Morocco and South Korea.

In accordance with these conventions, Agreements on Mutual Administrative Assistance and Automatic Information Exchange have been entered into with the Kingdom of Belgium, the Czech Republic, the Kingdom of Denmark, the Republic of Estonia, the Republic of Finland, the German Federative Republic, the Republic of Lithuania, the Kingdom of the Netherlands, the Republic of Uzbekistan and the Republic of Azerbaijan.

Administrative cooperation and information exchanges on direct taxation with all EU Member States were carried out in accordance with Council Directive 77/799/EEC of 19 December 1977 concerning mutual assistance by the competent authorities of the Member States in the field of direct taxation and Council Directive 2003/48/EC of 3 June 2003 (the Savings Directive).

In 2011, information exchanges were carried out in the field of direct taxation with EU Member States and countries with which tax conventions have been signed. In 2011, a total of 116 information requests were sent and 147 information requests were received. In 2011, automatic information exchanges were ensured in the field of direct taxation: automatic information was transmitted to 16 countries and received from nine countries. In addition, the tax administrations of 24 EU Member States and their dependent and associated territories were sent automatic information regarding the savings income of non-residents in Latvia in 2011, and automatic information was received from said tax administrations regarding the savings income earned by Latvian residents abroad.

In order to foster closer cooperation with the Ministry of Taxation of the Republic of Azerbaijan, a treaty on mutual administrative cooperation and information exchanges in the field of taxation was concluded in January 2011.

In 2011, regular information exchanges with other EU Member States in the field of indirect taxation were ensured in accordance with Council Regulation (EC) No 2073/2004 of 16 November 2004 on administrative cooperation in the field of excise duties and Council Regulation (EC) No 1798/2003 of 7 October 2003 on administrative cooperation in the field of

value added tax and repealing Regulation (EEC) No 218/92, using the following EU tax information exchange systems:

- *System of exchange of excise data (SEED)*: information system for the exchange of registration data on persons involved in the circulation of excisable goods;
- *VAT Information Exchange System (VIES)*: an information exchange system on value added tax that enables EU Member States to swap information on the conformity of VAT registration numbers, changes to VAT registers and on transactions undertaken by enterprises within the EU territory;
- E-services system: a system for the declaration of services provided electronically by persons not registered in the EU.

In 2011, information exchanges with EU Member States took place regarding services provided electronically by persons not registered in the EU to persons not subject to VAT in Latvia; the supply of new vehicles to non-taxable persons in the EU; VAT refunds to Latvian undertakings and those of other EU Member States; VAT registration numbers assigned to taxpayers of other EU Member States; potentially fictitious undertakings, as well as other types of spontaneous information exchange.

In 2011, regular information exchanges were ensured with Lithuania and Estonia regarding mutual transactions between taxpayers (as part of a tri-lateral treaty).

In ensuring the inspection of transactions carried out within the EU territory, a total of 1,454 information requests were sent to EU Member States in 2011, and 723 information requests were received from other EU Member States in the field of indirect taxation.

The greatest flow of documents pertains to the standardised procedures of administrative cooperation using the unified digital EU Member State forms.

In 2011, SRS sent out four proposals for multilateral controls to the tax administrations of other EU Member States: three cases in the field of VAT (two proposals to the Estonian tax administration and one proposal to the Polish tax administration) and one case in the field of direct taxation that was offered to the Swedish tax administration. All the proposals pertaining to VAT were accepted. In turn, two proposals for multilateral controls were received from the tax administrations of other Member States in 2011: one proposal from the Swedish tax administration in the field of direct taxation and one from the Lithuanian tax administration in the field of VAT and excise duties. Both proposals were accepted. Thus, in 2011, the Latvian tax administration participated in a total of nine multilateral controls, i.e., in five new multilateral controls and four controls commenced in the preceding year.

### **Participation in events held by international organisations and other countries**

In 2011, a meeting was organised in Stockholm as part of Fiscalis 2013 programme between representatives of the Latvian and Swedish tax administrations on matters and problems related to information exchange and on cooperation on labour outsourcing.

In 2011, at the invitation of the Norwegian tax authority, a representative of SRS participated in a working visit to Norway, during which the SRS representative gave presentations to the staff of the Norwegian tax administration on the expertise and working methods of SRS, the sources of information available to SRS and the potential application of information systems as tools in combating VAT evasion.

In an effort to promote uniform application of EU legislation and to become acquainted with the experience of tax administrations in other countries, 2011 saw continued active participation in the seminars, task forces, exchange visits organised by international organisations and institutions (Fiscalis 2013 programme of the European Commission, Intra-European Organisation of Tax Administrations [IOTA], Organisation for Economic Co-operation and Development [OECD]) and in the activities of the committees of the European Council and European Commission.

Participation was ensured in the following high-level international events in 2011:

- 15th General Assembly of the Intra-European Organisation of Tax Administrations (IOTA) in France;
- meeting of the Coordination Council of the heads of tax administrations of the Commonwealth of Independent States;
- the annual meeting of the heads of tax administrations of the EU Member States in the Netherlands and the Global Forum of the Organisation for Economic Co-operation and Development (OECD) on the application of tax treaties, in France;
- opening ceremony of the Koidula customs control point of the Republic of Estonia and the Russian Federation, in Estonia.

In March 2011, a delegation of human resource management officials from the tax administration of the Russian Federation acquainted itself with the experience of SRS in matters related to personnel management, whereas in May 2011, SRS hosted delegations of representatives from the Kyrgyz and Belarusian tax administrations.

In June 2011 in Riga, as part of Fiscalis 2013 programme, an experience exchange visit of international experts on matters of the registration of purchases in electronic cash registers and cash registration systems, organised by SRS, took place, during which the control methods and tools used by the participating countries in the detection and prevention of such instances were discussed. The event was attended by experts from the tax administrations of Sweden, Norway, Croatia, the Netherlands, Lithuania, Cyprus, Ireland and Denmark. During the event, SRS acquired information on software that enables detection of whether or not interference has taken place with the software using zappers and phantom-ware, which are banned programs (software) used in the editing of the unmodifiable data of electronic cash registers. Further, in the light of information received from abroad, SRS in its thematic examinations now focuses more on electronic cash registers that could be used in fraudulent activities – in order to address the matter of excluding such electronic cash registers from the unified SRS database (register).

Much interest from other countries was also received with respect to the working visit on current issues in transfer pricing, organised by SRS as part of the Fiscalis 2013 programme.

In November 2011, SRS hosted visitors from the Norwegian Association of Tax Auditors and the Norwegian tax administration.

The work of the technical assistance mission of the International Monetary Fund with SRS on current issues of tax administration continued this year.

## **Customs**

Latvian customs officials regularly participate in the activities of European Commission (EC) working groups and international events, seminars, project groups and meetings organised by the EC Customs 2013 programme and international institutions.

In 2011, 484 representatives of the Latvian customs service participated in 308 different foreign events on customs-related matters.

The Latvian customs service is represented on 59 EC committees and working groups in the field of customs. In 2011, representatives of the Latvian customs service promoted the fulfilment of the EU objective – facilitation of uniform application of legislation – by participating of unified EU customs guidelines concerning customs control activities and safety inspections of imported goods.

Taking advantage of the opportunities provided by the EC Customs 2013 programme, 267 representatives of SRS and other institutions participated in various seminars, project groups and meetings, including 85 SRS representatives who took part in ten working visits, visiting customs and tax administrations in ten countries: the Czech Republic, Germany, Denmark, Estonia, Finland, Hungary, Ireland, Lithuania, Poland and Sweden.

On 14-15 September 2011, the 6th meeting of the Working Group on Control Convergence of the EC Customs 2013 programme was held in Riga. The Working Group on Control Convergence also visited the customs control points on the eastern border of the

European Union in order to develop the section in the manual on controls using non-intrusive technologies (mobile, portable or fixed scanners and X-ray equipment, radiation detection devices, systems for the identification of vehicle and container numbers and scales).

In June 2011, EC officials paid a monitoring visit to the Latvian customs service regarding the application of REM/REC procedures and, in September, on the progress of the implementation of the Import Control System.

As a way of strengthening cooperation within the Baltic Sea region, the Latvian customs service, along with the Lithuanian and Estonian customs services, coordinate opinions on Europe-related matters. In 2011, the implementation of the mutual cooperation plan of the Baltic customs services for 2010-2011 continued, as a result of which a vision was developed for the linking up of automatic number identification systems for common use in the Baltic states. The implementation of a joint project, *Assistance for the acquisition of technical equipment (hardware and software)* was commenced, co-funded by the EC operational programme Hercule II, Technical Assistance to Law Enforcement Agencies. It is proposed as part of the project to improve the vehicle and container automatic identification system (VCIS) in the possession of the SRS Customs Board by adding a server and software and to create a link-up with the corresponding systems in Lithuania and Estonia.

As part of the implementation of the measures of the mutual cooperation plan of the Baltic customs services, experience exchange visits were organised from October to December 2011 for the customs administrations of the Baltic states, during which customs officials were introduced to the organisation of operations, functions and main areas of operations of customs control points, specialised technical equipment, methods for the organisation of records and physical controls and the basic principles of collaboration among customs, border guard and sanitary services; they also participated in the work process by performing physical controls on vehicles.

As a way of strengthening the bilateral cooperation on customs affairs between Latvia and Finland, a number of meetings took place in 2011 between the leadership of the Latvian customs services and the Finnish Ambassador to Latvia, Maria Serenius. Given that the situation on the eastern border of the EU and the trends in the entry of smuggled goods are similar in both neighbouring countries, a decision was taken to organise an exchange of experience between the employees of the customs services of both countries, utilising the opportunities afforded by the EC Customs 2013 programme. The first experience exchange visit of representatives from the Customs Criminal Board to the Finnish customs took place in December 2011.

As in the preceding years, 2011 saw a continuation of the cooperation between the Latvian customs service with the United States Embassy in Latvia. On 24 March 2011 at the Grebņeva customs control point, U.S. Ambassador to Latvia Judith Garber led the ceremony of conferral of a donation to the SRS Customs Board: equipment intended for the performance of customs control and the identification of contraband. In April, as part of the U.S. Department of State's Export Control and Related Border Security (EXBS) programme, the Latvian customs authorities hosted an exchange of experience visit of representatives from Armenian state institutions on issues pertaining to border control and the prevention of customs violations, whereas towards the end of the year, an exchange of experience visit of a delegation from the Serbian customs took place at the Latvian customs regarding issues of the use of electronic customs, NCTS, risk analysis and mobile scanners. In June in Riga, officials from the SRS Customs Board and the SRS Customs Criminal Board took part in a training seminar organised by the U.S. Embassy for officials of the institutions of the Baltic states involved in matters related to export and border security.

Throughout last year, cooperation continued between the Latvian customs service and the customs administrations of the Commonwealth of Independent States – mainly those of the Russian Federation, the Republic of Belarus and the Republic of Kazakhstan.

In July 2011, the Latvian customs administration hosted officials from the Federal Customs Service of the Russian Federation on a visit of exchange of experience regarding the use of risk management systems by the Latvian customs. In turn, in order to improve and develop the customs control process, officials of the Latvian customs service visited the St. Petersburg branch

of the Russian Customs Academy in November 2011, to acquaint themselves with study opportunities and conditions for scanning operators.

On the basis of the minutes of the 5th meeting of the Latvian-Russian Intergovernmental Commission, in September 2011 the services involved in controlling the national border of Latvia and the Federal Border Services Agency of the Russian Federation (Rosgranitsa) performed joint monitoring of the border control points on the national border between Latvia and Russia. As a result, proposals were developed for adjusting national construction plans, as well as joint suggestions and recommendations concerning the repair and reconstruction of border crossing points, and an agreement was reached on the synchronisation of the operations of the Latvian and Russian border control sites, in order to increase their through-flow capacity and to create a benign environment for both persons crossing the border and officials of the control agencies. A decision was adopted to perform future monitoring of this kind no less than once every two years.

Another aspect of international cooperation was the participation by Latvian customs officials in exhibitions and forums, such as, in 2011, the 12th international exhibition *Customs Service 2011* and international forum *Customs and Business: International and Regional Aspects of Cooperation*, which were dedicated to the 20th anniversary of the Russian customs service and the 20th anniversary celebration of the State Customs Committee of the Republic of Belarus, and in the 2nd international conference *Customs Union of Belarus, Kazakhstan and Russia: Today and Prospects for the Future*.

As part of continued cooperation with Belarus, in 2011, the customs audit structures of Latvia and Belarus organised bilateral exchange of experience visits regarding issues of the development and improvement of customs audit.

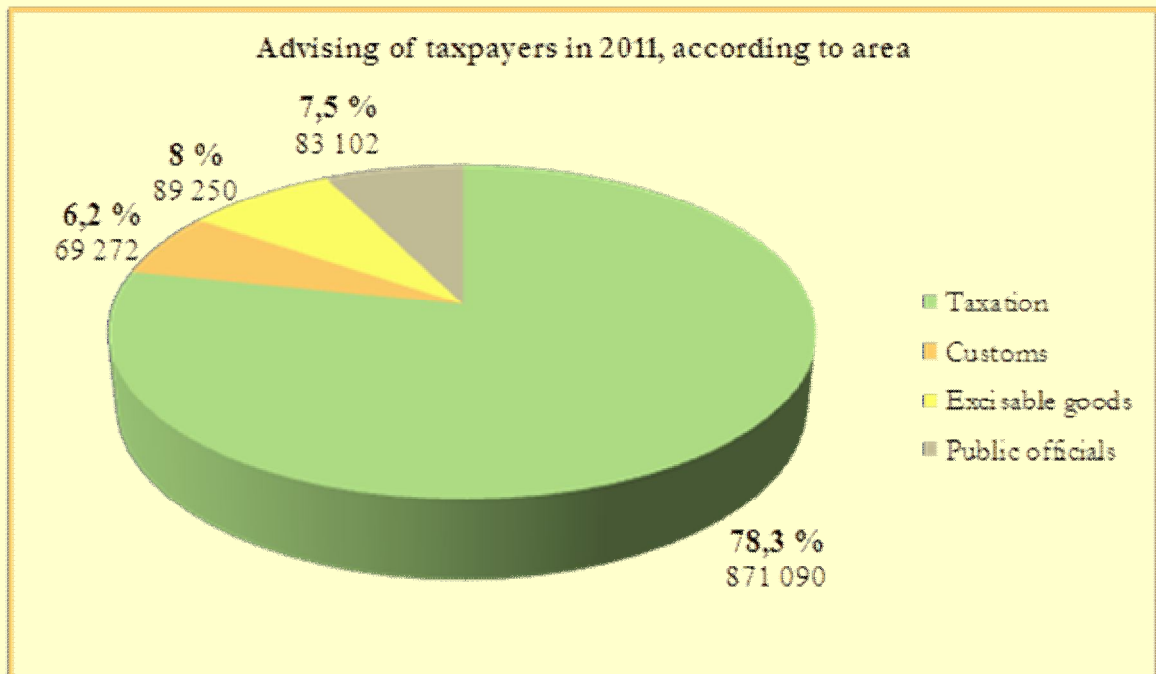
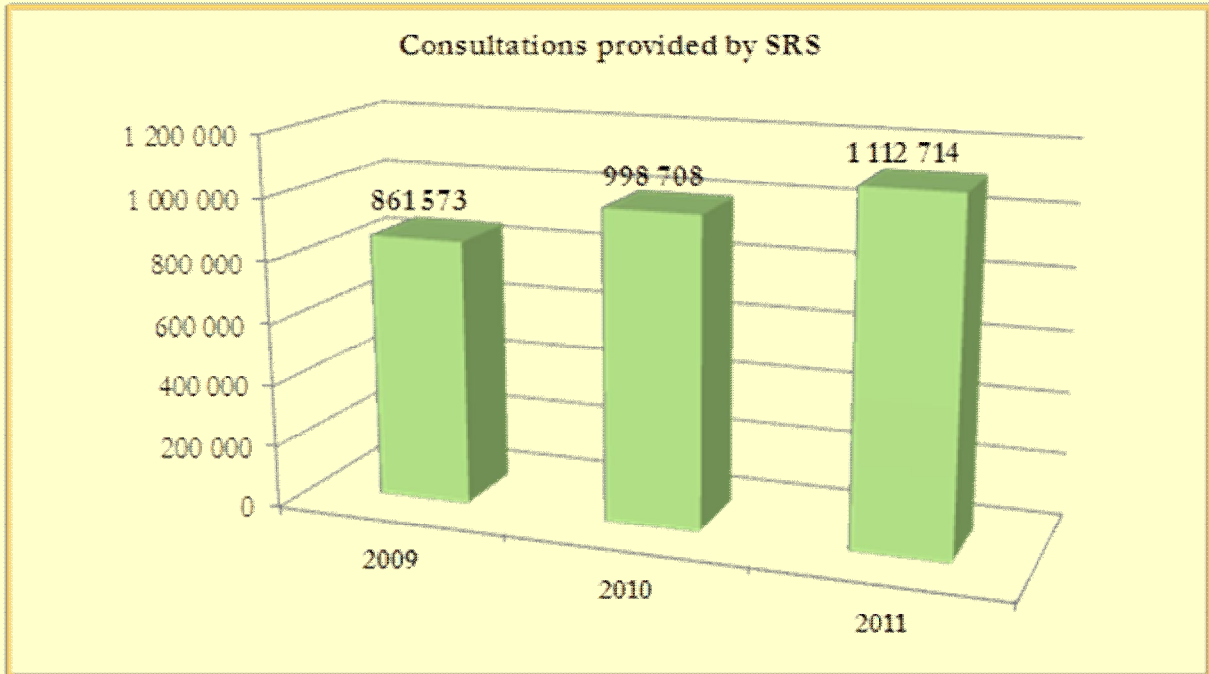
On 2 November 2011, a meeting took place between the Director of the SRS Customs Board and the Chair of the State Customs Committee of the Republic of Belarus, during which the heads of customs administrations of both countries agreed on enhancing cooperation by enabling swift mutual information exchange in cases of unforeseen situations on the Belarus–Latvia border that may adversely affect the process of border crossing by vehicles and the movement of goods.

It has to be noted that a principle of partnership is followed in the cooperation with the State Customs Committee of the Republic of Belarus. This type of collaboration was also applied to Belarusian strategic project No LLB-0-276 *Construction and Equipment of Grigorovsbchina Customs Control Point on the Border between the Republic of Belarus and the Republic of Latvia: Introduction of Non-intrusive Control Technology*, implemented as part of the European Neighbourhood and Partnership Instrument of the EU-funded Latvia–Lithuania–Belarus Cross-Border Cooperation Programme, in which the SRS Customs Board participates as a partner of the State Customs Committee of the Republic of Belarus, being involved in the coordination of the progress of the project and proposing to organise a future exchange of experience and training of Belarusian colleagues in operating a cargo scanner.

# PUBLIC COMMUNICATION

## Advising and informing of taxpayers and the use of the SRS EDS

### *Advising and information*



Advice is provided to taxpayers both verbally in person at client service locations and institutions and electronically, in writing and by telephone.

The number of consultations provided electronically has more than doubled, or increased by 102% (60,336 consultations were provided in 2011). A total of 221,130 consultations were

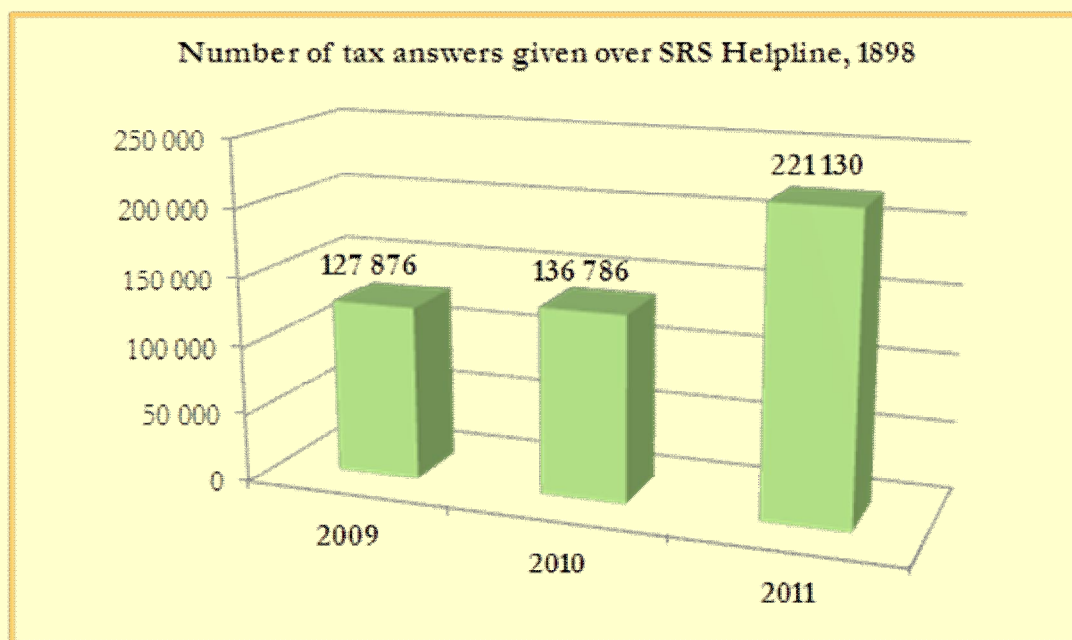
provided over the SRS helpline, 1898, which is 100,146 consultations, or 82.78%, more than in 2010.

Overall, the greatest number of consultations in 2011 took place on tax-related matters verbally in persons at client service locations and by telephone.

The SRS structures involved in administering data on public officials invest a significant effort in informing public officials and heads of State and local government institutions about matters related to compliance with the Law on the Prevention of Conflict of Interest in the Activities of Public Officials that fall within the scope of responsibility of SRS. In 2011, public officials, heads of institutions and other interested parties were provided 83,102 consultations, which is 46,660, or 36%, fewer than in 2010.

In 2011, 69,272 consultations were provided on customs-related matters. The majority of advice was provided on matters relating to the processing of customs procedures, the application of customs payments and the submission of digital customs declarations.

In ensuring the continuity of the cooperation between the customs administration and its social partners – industry associations – the Customs and Business Advisory Council continued its activities, meetings of which have been regularly organised by SRS since 2004.



The SRS taxpayer helpline is a convenient way for receiving information and advice on matters that are within the scope of SRS. Due to the great increase in the number of taxpayers who seek advice by calling 1898, the staff of the SRS helpline was doubled in 2011 in order to improve the service provided to taxpayers. In 2011, 221,130 consultations were provided, of those, 32% concerned PIT, 19% concerned VAT and 18% concerned the EDS.

In 2011, 42 pieces of informational were produced.

In 2011, a professionally printed customs client service standard was placed at SRS customs control points.

In 2011, 940 awareness-raising events were organised for taxpayers (seminars, lectures, discussions, etc.).

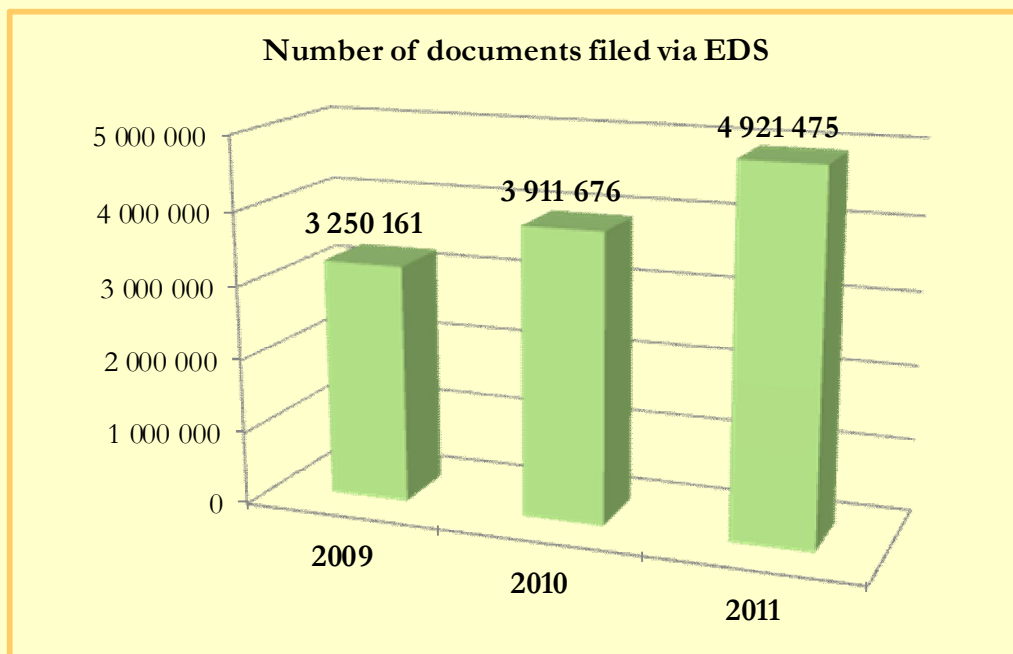
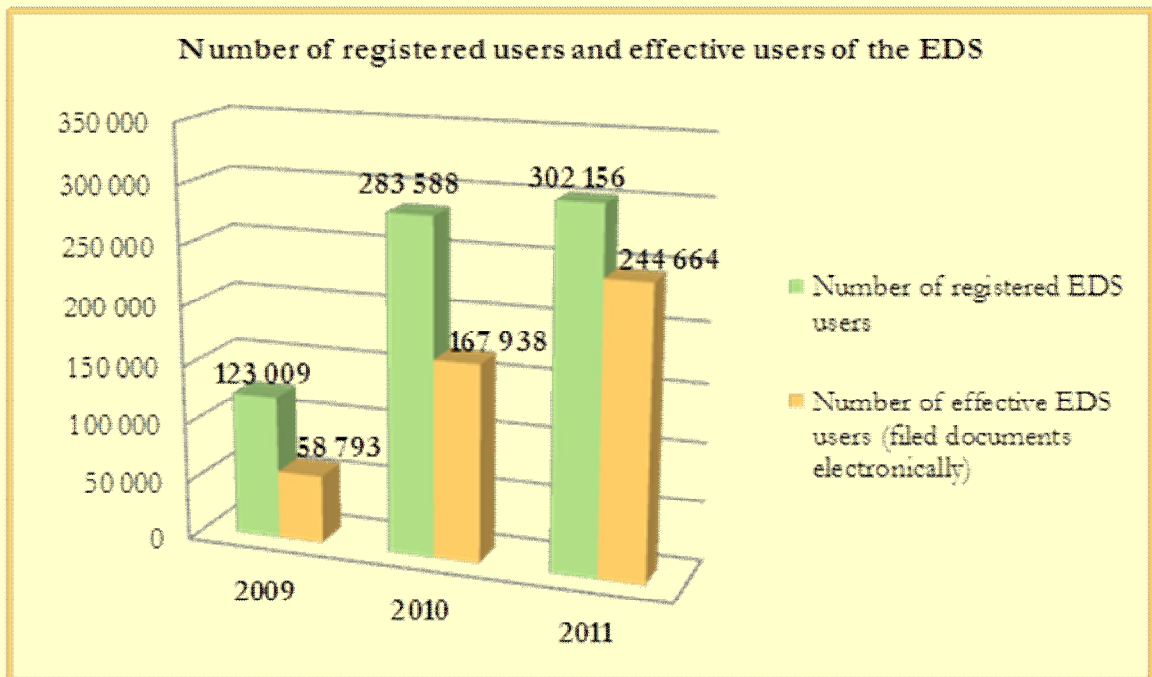
In 2011, SRS honoured the largest taxpayers to the State budget in the preceding year.

SRS also actively participates in projects organised by other bodies. In 2011, SRS took part in the Shadow Day organised by Junior Achievement/Young Enterprise Latvia (a public benefit organisation and an expert on business education at Latvian schools); 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 (MEPRD), which aimed to foster greater public interest in the opportunities to acquire and apply e-skills, to inform on where and how existing e-skills can be applied and improved and on the opportunities of receiving State-provided e-services and easier use thereof.

### *Use of the SRS EDS*

The SRS EDS (Electronic Declaration System) is a SRS information system intended for broad use and enabling easy and speedy online submission of various documents, including tax returns and information declarations.



## **Work with mass media**

SRS regularly informs the public via mass media on developments in its activities: by providing information proactively as well as by responding to various queries by journalists. Data from media monitoring (conducted by SIA Mediju Monitorings) indicate that, in 2011, SRS and issues falling within the area of responsibility of SRS (taxation and tax evasion, customs, circulation of excisable goods, etc.) were covered by mass media (print, television, radio, internet portals and regional press) in 28,387 publications/reports, i.e., 2,365 publications per month and an average of 107 per working day.

# **PRIORITIES FOR 2012**

- Prevention of loss of revenue from value added tax, reduction of non-compliance related to illegal employment and cash-in-hand wage payments, and restriction of unregistered economic activity, through the implementation of a programme of supervisory measures;
- Strengthening of the control capacity to ensure an increase in controls on legal persons;
- Combating of organised crime and corruption in the field of State revenue;
- Implementation of customs control measures in the priority areas: limiting of the smuggling of excisable goods, combating of the smuggling of narcotic and psychotropic substances, and combating of organised crime groups.