



**STATE REVENUE SERVICE
OF THE REPUBLIC OF LATVIA**

**ANNUAL REPORT
2008**

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INTRODUCTION OF THE STATE REVENUE SERVICE DIRECTOR GENERAL

Dear Reader,

The State Revenue Service (SRS) performance results despite the economic downturn have remained positive – tax revenues have increased by about 542 million lats or 11,8 %. Tax revenues were also affected by the reduction in the number of employers emerging in the second half of 2008. The trend is explained by personnel optimization in both private and public sector. However, the most rapid drop was observed in the value added tax which is directly related to the slowdown of economic activity. In 2008 the VAT revenues amounted to 85,78 million lats or 7 % less than in 2007.

Also in 2008, as it was in 2007, we strongly focused on improving taxpayer servicing, expanding the options provided by the Electronic Declaration System (EDS) – use of secure signature issued by Latvijas Pasts to sign documents added to the EDS, registration as the EDS client without concluding an agreement with the SRS in paper. We have also carried out informative campaigns to promote the EDS. One of the most significant innovations of 2008 is the establishment of the SRS hotline 80009070 and common info line 1898, both free of charge.

Although the year 2009 is the year of the SRS reorganization and optimization, we are determined to keep sticking to high quality client service standards and regardless the cuts in resources will do everything possible to perform the duties attributed to the service in the most effective way. In 2009 we will further develop our initiatives to modernize the services provided and simplify tax compliance.

I would like to express my gratitude to all honest taxpayers, the SRS cooperation partners and the SRS personnel for our common achievements of 2008 which are so crucial to the state and hope for a fruitful cooperation also in the future!



Dzintars Jakāns
SRS Director General

A handwritten signature in blue ink that reads "Dzintars Jakāns". The signature is written in a cursive, flowing style.

BASIC INFORMATION

Vision of the SRS

The SRS is a state tax and customs administration which is client-oriented and competitive in the European Union, which promotes fair business and ensures the highest security level on the external borders of the European Union.

Objective of the SRS

Fair administration of taxes and protection of society and business according to the good governance principles by implementing the requirements and priorities set by the Latvian state and the European Union.

Slogan of the SRS

We are your partners in meeting your liabilities to the state!

Principles of the SRS

1. Fairness.
2. Openness and transparency.
3. Common public benefit.
4. Continuous improvement.
5. Cooperation and mutual respect.

Values of the SRS

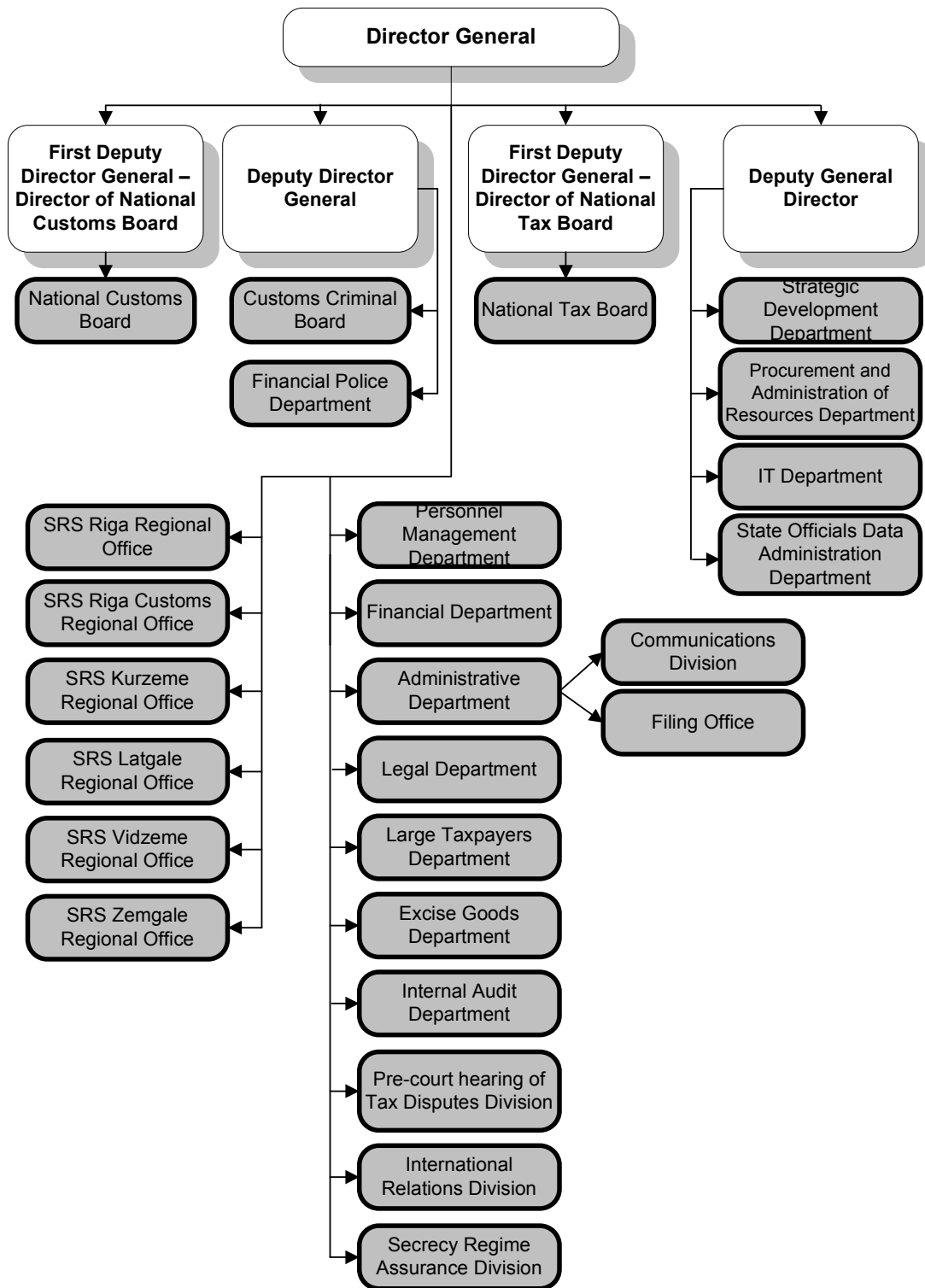
1. Fairness.
2. Professionalism.
3. Responsibility.
4. Loyalty.

The principles and values are uniting the SRS and are binding to all employees to achieve the development strategy goals of the SRS.

Strategic goals of the SRS

1. Voluntary compliance with tax and customs liabilities.
2. Favourable environment for fair business.
3. The highest security level on the external border of the EU.
4. Efficient management of internal processes.

Structure of the SRS



PRIORITIES OF THE ACTIVITIES

1. Budget programs and sub-programs performance indicators.
2. Management and operation improvement systems.
3. Tax administration.
4. Tax revenue performance by types of taxes.
5. Customs issues.
6. Combating financial crimes.
7. Supervision of excise goods movement.
8. Control of the activities of state officials.
9. Tax enforcement and resolution of tax disputes.
10. International cooperation.
11. Communication with the society.

**PERFORMANCE INDICATORS OF BUDGET PROGRAMS
AND POLICY AND OPERATION RESULTS OF SUB-
PROGRAMS IN 2008**

Title of budget programs and policy and operation results of sub-programs	Planned performance	Actual performance
1	2	3
33.00.00 program State Tax Administration		
Policy Results		
Total inland tax and duty revenues administered by the SRS (million LVL), including:	4 804,49	4 844,61
Inland value added tax revenues (million LVL)	997,478	871,25
Inland excise duty revenues (million LVL)	518,323	518,39
Corporate income tax revenues (million LVL)	529,00	503,12
Personal income tax revenues (million LVL)	1 058,00	1 022,48
Mandatory state social insurance contributions (million LVL)	1 701,69	1 667,46
Performance results		
Costs per one lat collected	0,019	0,016
Number of tax audits	1 475	1 344
Number of thematic checks	25 617	26 483
Provision of Excise Movement and Control System's (EMCS) implementation according to the deadline set by the European Commission's Taxation and Customs Union Directorate General (%)	80	75
Percentage of recovered debts out of actually recoverable active debts (monthly average, %)	24,0	27,0
Number of active Electronic Declaration System (EDS) users as a percentage of the total number of registered legal persons (%)	25	28
34.00.00. Securing customs operations		
Policy result		
Total revenues administered by the Latvian customs service (million LVL), including:	363,319	294,82
Value added tax revenues upon release of goods for free circulation (million LVL)	312,177	245,90
Excise duty revenues (million LVL)	21,642	22,53
Customs duty revenues (million LVL)	29,50	26,39
Performance results		
Number of physical customs controls for vehicles and cargos (goods)	316 500	464 321
Number of developed competence profiles in the division of securing customs operations and preventing customs-related crimes	50	50
35.00.00 Securing disclosure and prevention of financial crimes and corruption		
Policy result		
Number of disclosed crimes	425	359

1	2	3
Performance results		
Dynamics in the number of disclosed tax fraud and financial crimes	450	359
Prevented loss to the state budget by disclosing crimes related to legalization of proceeds of crime (million LVL)	12	8.59
Number of developed competence profiles in the division of disclosing and preventing financial crimes and corruption	10	10
Declarations of state officials filed via EDS (%)	3	7

MANAGEMENT AND OPERATION IMPROVEMENT SYSTEMS

Internal Control System

According to the State Revenue Service development strategy for 2007 – 2009, one of the strategic objectives of the SRS is to ensure efficient management of the SRS internal processes.

To reach this objective it is necessary to strengthen the internal control system. To improve and perfect the internal control system, the SRS performs regular internal audits.

During the year of account, the employees of the SRS Internal Audit Department have examined, analysed, and evaluated the SRS internal control systems according to the strategy plan of internal audit. Internal audits were carried out in the following SRS systems – management of the central office and local offices, IT administration and security, administration of property adherent to the state, accounting and maintenance of material values, accounting of tax assessment and collection, administration of the EU's traditional own resources, EU's Common Agricultural Policy and organization of customs control operations.

In general internal control systems within the SRS perform effectively. Audits have resulted in the development of recommendations to prevent shortcomings and inadequacies; reports on audit results have been submitted to the SRS Director-General. A detailed report on the performance of internal audit in 2008 has been submitted to the Ministry of Finance.

On the basis of internal audit's performance, resources, development of new systems and other factors influencing the internal audit environment, the report contains also a strategic plan of the SRS Internal Audit Department for 2008-2012.

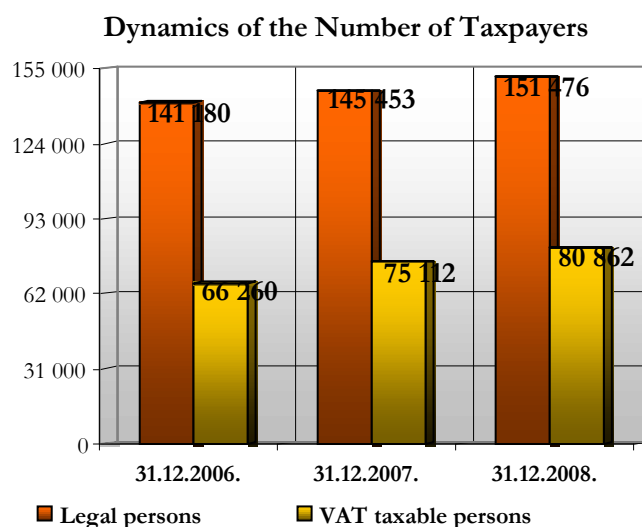
To enhance audit quality and ensure the SRS development, the SRS Internal Audit Department has successfully got involved in facilitating experience exchange by cooperating with Lithuanian and Estonian tax and customs administrations in internal audit matters within the framework of *Customs 2007* project.

TAX ADMINISTRATION

Number of Taxpayers

According to the data of the Taxpayers Register on 31 December 2008, the number of taxpayers – legal persons has increased by 6 023 persons or 4,1 % compared with the data on 31 December 2007.

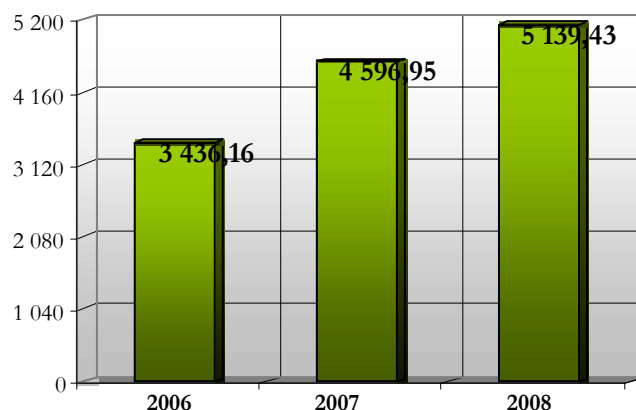
The number of value added tax taxable persons has increased by 5 750 persons or 7,7 %.



Performance of Budget Revenues Administered by the SRS

Despite the economic downturn, the SRS in 2008 has collected more taxes than in 2007. In 2008 state budget revenues administered by the SRS amounted to 5,139 billion lats which is 542, 48 million lats more than in 2007.

**The Combined Budget Revenues Administered by the SRS,
million LVL**



The highest growth trend has remained within the corporate income tax, mandatory state social insurance contributions and personal income tax revenues.

However, a number of tax revenue positions in 2008 show a decline – the highest drop in absolute terms is in VAT revenues.

The Budget Revenues Administered by the SRS

Types of Taxes	Revenue (million lats)		Difference (2009 minus 2007)		Performance of the annual plan, %
	2007	2008	million lats	%	
Tax revenue	4 393,81	4 918,76	524,96	11,9	95,1
Corporate income tax	399,75	503,12	103,37	25,9	95,1
Value added tax	1 202,93	1 117,15	-85,78	-7,1	88,4
Excise duty	448,09	540,92	92,83	20,7	100,0
including for:					
alcoholic beverages	89,86	90,97	1,11	1,2	94,2
beer	10,57	10,24	-0,33	-3,1	93,3
tobacco products	74,24	143,58	69,34	93,4	108,0
oil products	267,43	290,22	22,78	8,5	98,7
other excise goods	5,99	5,92	-0,07	-1,2	92,3
Customs duty	27,85	26,39	-1,46	-5,2	85,1
Social insurance contributions	1 377,38	1 667,46	290,07	21,1	98,0
Personal income tax	887,80	1 022,47	134,67	15,2	96,6
Natural resources tax	10,38	9,37	-1,01	-9,8	90,6
Lottery and gambling tax	22,38	21,54	-0,84	-3,7	94,5
Passenger car and motorbike tax	16,70	9,52	-7,18	-43,0	67,0
Electric energy tax	0,53	0,82	0,29	55,6	182,7
Non-tax revenue	203,15	220,67	17,52	8,6	87,3
Revenue from the Bank of Latvia payment	0,99	7,72	6,73	681,4	100,0
Revenue from dividends (revenue for the use of state (municipal) capital)	59,46	89,29	29,82	50,2	91,0
State (municipal) duties and stamp duties	114,74	97,32	-17,42	-15,2	80,1
Penalties and sanctions	13,44	13,67	0,23	1,7	90,2
Other non-tax revenue	14,51	12,66	-1,84	-12,7	120,6
Total	4 596,95	5 139,43	542,48	11,8	94,7

PERFORMANCE OF TAX REVENUE BY THE TYPES OF TAXES

Corporate Income Tax

Corporate income tax is paid by:

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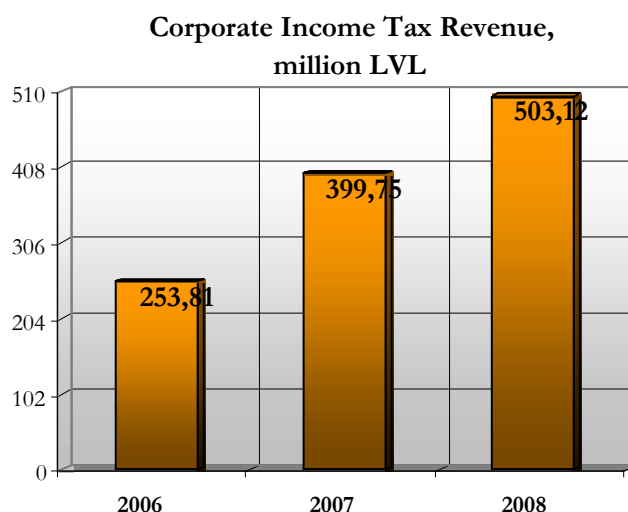
1) performers of economic activities (inland companies, institutions financed from the budget (with exceptions), institutions financed from the municipal budgets, which receive income from economic activities (with exceptions));

2) foreign commercial companies, natural persons and other persons (non-resident);

3) permanent representations of non-residents.

Corporate income tax rate changes: 2001 – 25 %, 2002 – 22 %, 2003 – 19 %, since 2004 – 15 %.

The increase in corporate income tax revenues in 2008 was influenced by the taxpayer payments on the profits gained in 2007.



Value Added Tax

VAT taxable person is a natural or legal person, the group of such persons bound by a contract or an agreement, or the representative of such a group, which performs economic activities, and is registered in the SRS Register of Value Added Tax Taxable Persons.

If the total value of taxable goods or services supplied by a natural or legal person, the group of such persons bound by a contract or an agreement, or the representative of such a group has not reached or exceeded 10 000 lats within last 12 months, these persons, groups, and their representatives don't have to register in the SRS Register of Value Added Tax Taxable Persons.

Value added tax rates:

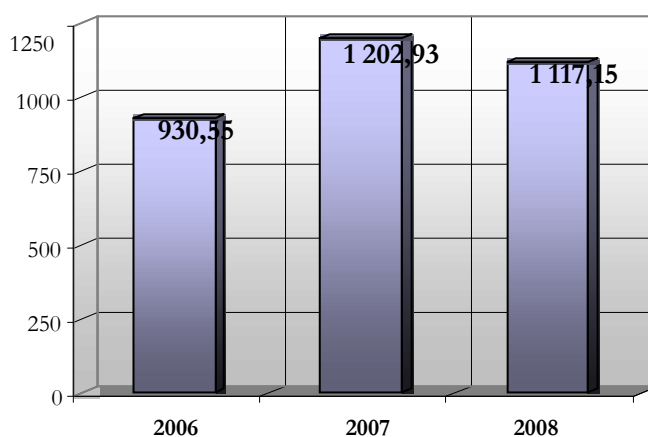
1) 18 %;

2) 5 %;

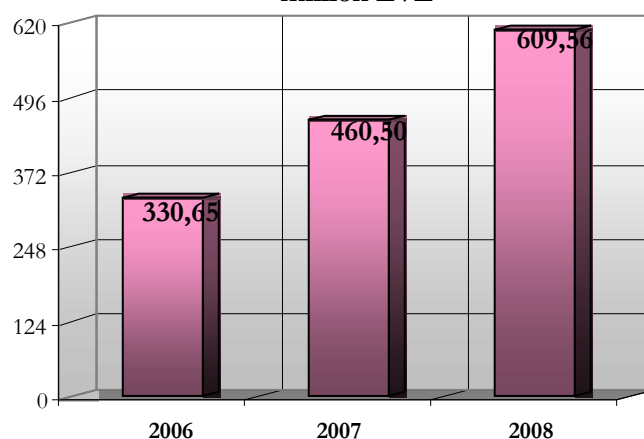
3) 0 %.

Drop in VAT revenues is explained by economy cooling.

**Value Added Tax Revenues,
million LVL**



**Value Added Tax Refunds,
million LVL**



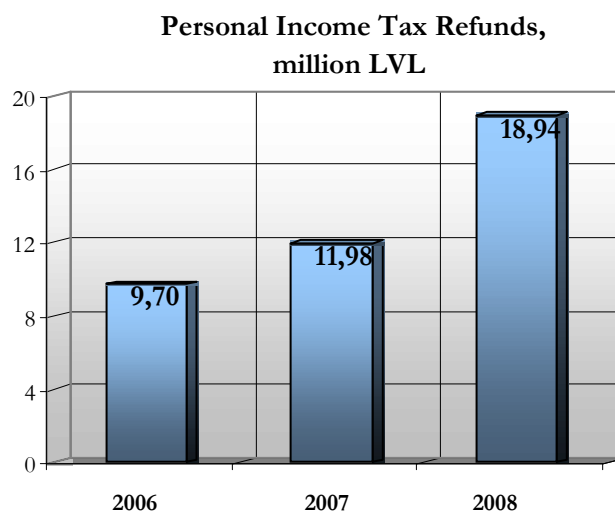
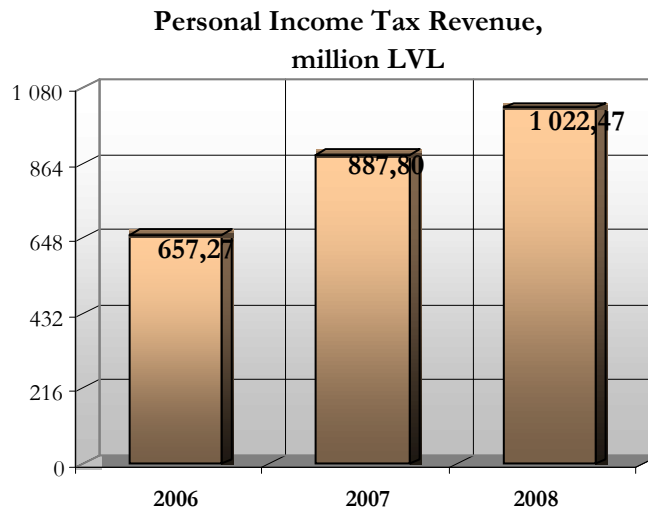
Personal Income Tax

Personal income tax consists of payroll tax, tax on the earned income as calculated and paid by the employer, and the tax on income from economic activities.

Personal income tax is paid by natural persons – residents, who have earned income during the taxation period in the Republic of Latvia and/or abroad, and natural persons – non-residents, who have earned income during the taxation period in the Republic of Latvia.

The personal income tax rate is 25 %, for income gained from business activity this rate amounts to 15 %.

The increase in personal income tax revenues is determined by the increase in salaries. Although in 2008 there has been an increase in personal income tax revenues, the growth rate has slowed down. This was also affected by the government policy on the budget-saving measures in the last months of 2008 and also workforce optimization in the private sector which is also indicated by the decline in the number of employees over the last months of 2008, as well as decline in the growth rate of the average gross salary.



Mandatory State Social Insurance Contributions

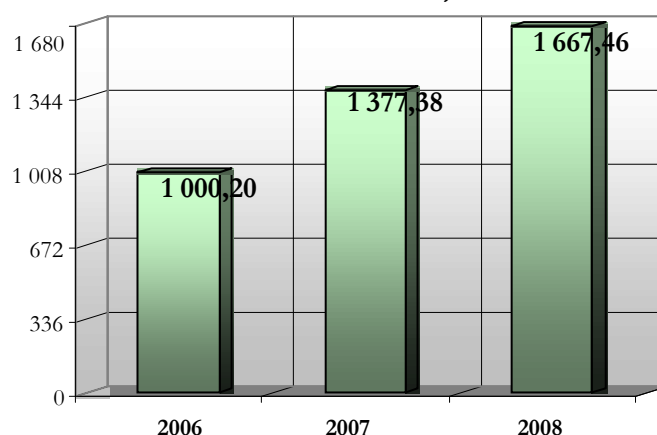
Mandatory state social insurance contributions are paid by:

- 1) employers;
- 2) self-employed persons;
- 3) persons, who have voluntarily joined the state social insurance;
- 4) inland employees at the employer – foreigner and foreign employees at the employer - foreigner.

Mandatory state social insurance contributions rate depends on the social insurance types (maximum rate – 33,09 %).

Increase in the mandatory state social insurance contributions and at the same time the slowdown of growth rate has the same grounds as for the personal income tax.

Mandatory State Social Insurance Contributions revenue, million LVL

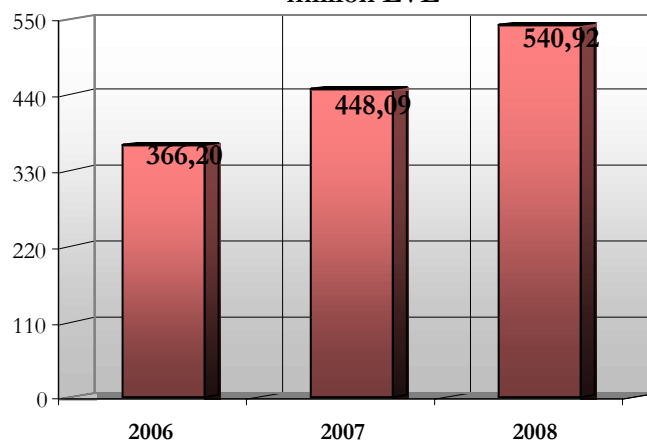


Excise Duty

Excise duty is paid by:

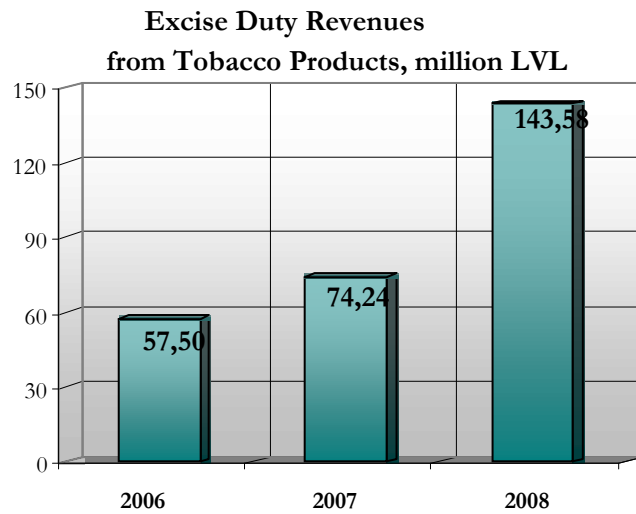
- 1) a person, who imports excise goods into the Republic of Latvia from abroad, which is not a European Union Member State (from third countries) with a purpose to release them into circulation;
- 2) a person, who has a status of the excise goods warehouse keeper, who receives excise goods from other European Union Member State, while applying to them the delayed excise duty payments, and who has a special permit (licence);
- 3) a person, who does not have a status of the excise goods warehouse keeper, who receives excise goods from other European Union Member State, while applying to them the delayed excise duty payments, and who has a special permit (licence) of a registered trader or of a representative of the excise duty payer;
- 4) other persons, who receive excise goods in the Republic of Latvia from other European Union Member State, which have already been released into circulation in other Member State;
- 5) a person, who sends excise goods from one European Union Member State to another European Union Member State to a person, who does not have a status of the excise goods warehouse keeper, registered or unregistered trader, prior to sending the goods to other Member States.

Excise Duty Revenues, million LVL

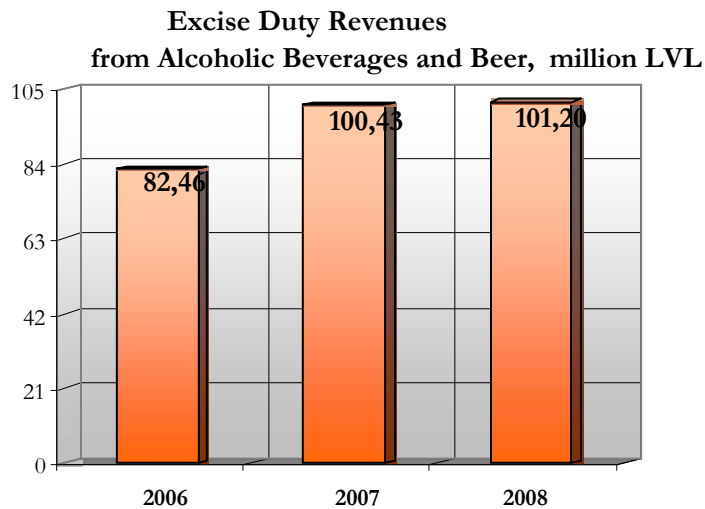


The highest increase in excise duty revenues was in the revenues from tobacco products. This was also influenced by the increase of excise duty rate for tobacco products.

Excise duty rates for tobacco products depend on the type of the tobacco product.

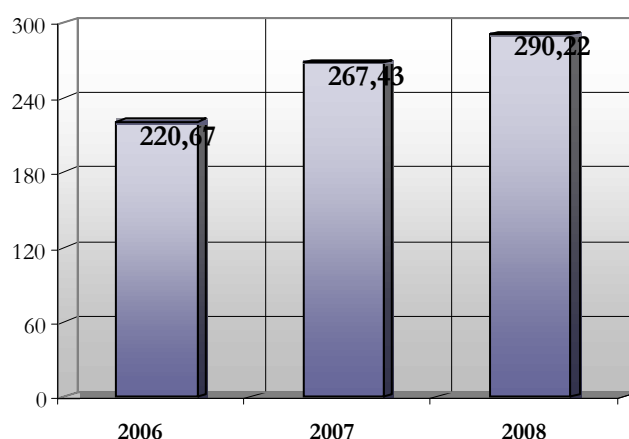


Excise duty rates for alcoholic beverages and beer depend on the type of alcoholic beverage and the absolute volume percentage of alcohol in it.



Excise duty for petroleum products is differentiated depending on the type of petroleum products, the products incorporated in them, and the purpose of use.

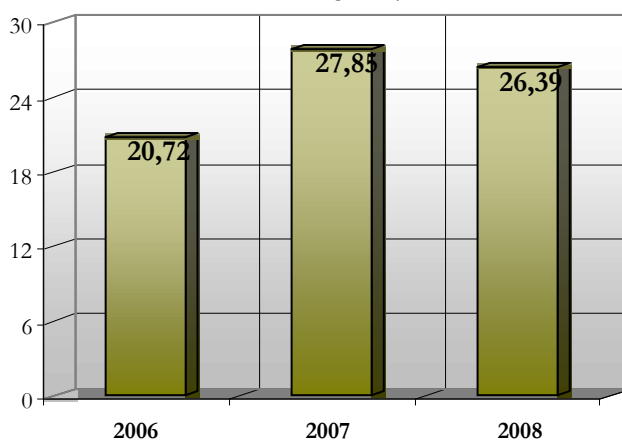
**Excise Duty Revenues
from Petroleum Products , million LVL**



Customs Duty

Upon joining the European Union in 1 May 2004, the European Union Customs legislative acts became binding for Latvia, thus, the European Union customs duty rates are applied to the goods, which are imported from the countries, which are not the Member States of the European Union.

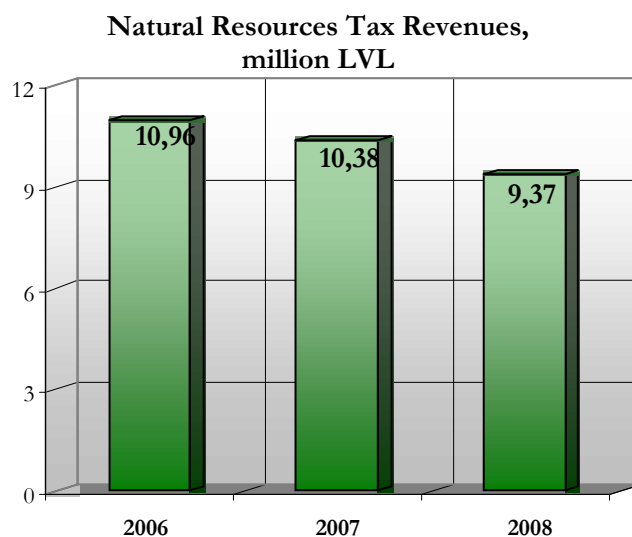
**Customs Duty Revenues,
million LVL**



Natural Resources Tax

The natural resources tax is administered by the Ministry of Environment, its supervised institutions, and the SRS.

The natural resources tax is paid for the extraction and utilization of natural resources, the environmental pollution, environmentally harmful goods sold in the Republic of Latvia or used to ensure own commercial activities, the packaging of goods, the plastic bags added to purchases, disposable dishware and cutlery, and the vehicles registered for the first time in the Republic of Latvia.

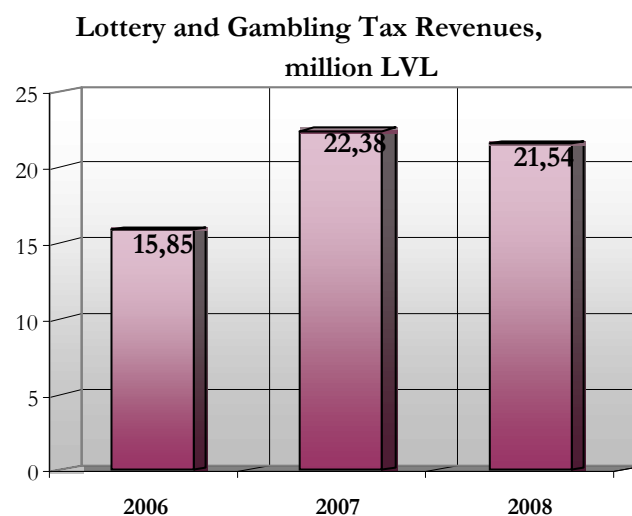


Lottery and Gambling Tax and Duty

Lottery and gambling tax is paid by companies, which have received a special permit (licence) for organization and maintenance of lotteries and gambling.

The tax is paid:

- 1) for each established place of gambling, installed slot-machine, or the type of gambling;
- 2) for the revenue from sales of lottery tickets.

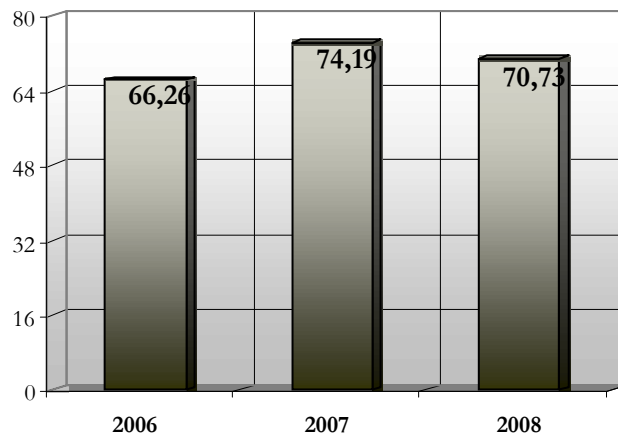


Real Estate Tax

Real estate tax is administered by municipalities and the SRS. Municipalities notify the taxpayer about the real estate tax amount for the next taxation (calendar) year by sending a payment notice. The SRS provides control over correct application of the law On Real Estate Tax.

Real estate tax rate is 1,0 % of the cadastral value of the real estate.

**Real Estate Tax Revenues,
million LVL**



Passenger Car and Motorcycle Tax

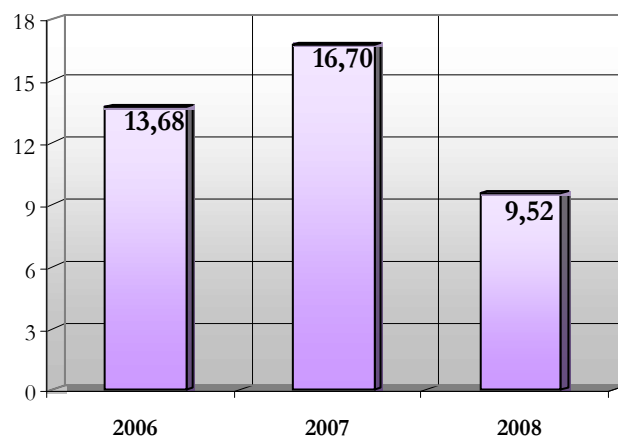
The passenger car and motorcycle tax was introduced in 1 May 2004, prior to that the excise duty on passenger cars and motor cycles was collected.

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

The tax for passenger cars is calculated depending on the age of the car (counting from the year of first registration abroad). The biggest tax rates are set for cars with powerful motor volumes (starting with 3001 cubic centimetres) – 300 to 600 lats. The smallest tax rate is set for cars with the age between five to seven years – 75 lats.

The motorcycle tax is calculated depending on the age of the motorcycle by multiplying the respective rates set for the passenger cars by a factor of 0,25.

**Passenger Car and Motor Cycle Tax,
million LVL**

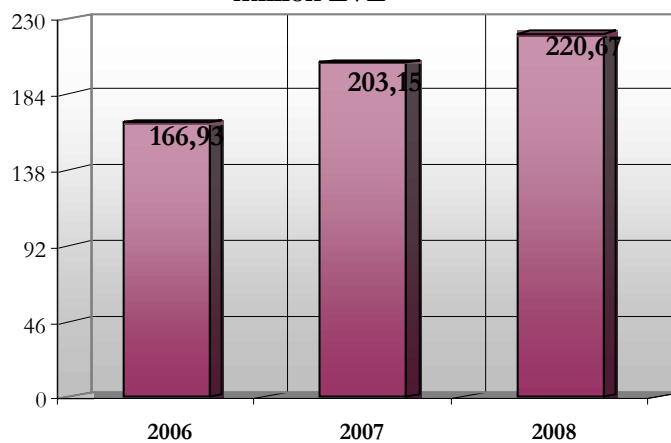


State Duties and Non-tax Payments

State duties and non-tax payments include:

- 1) state (municipal) duties and stamp duties;
- 2) revenues from the Bank of Latvia payment;
- 3) revenue from dividends (revenue for the use of state (municipal) capital);
- 4) penalties and sanctions;
- 5) other non-tax revenue.

State Duties and Non-tax Payments Revenues,
million LVL

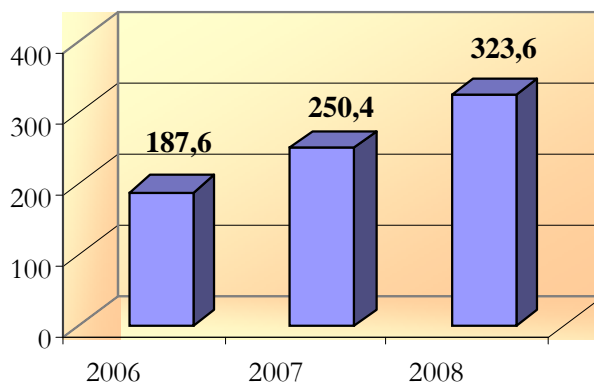


TAX ENFORCEMENT

In 2008 the tax enforcement work of the SRS Regional offices, the SRS Large Taxpayers Department, and the SRS Customs offices resulted in collection of 323,6 million lats to the budget. In 2008 73,2 million lats or 29,2 % more was enforced than in 2007. From the total of enforced taxes for 2008:

- 1) social insurance contributions make up for 108.3 million lats or 33,5 %;
- 2) value added tax – 115.6 million lats or 35,7 %;
- 3) personal income tax – 58.8 million lats or 18,2 %;
- 4) corporate income tax – 34.3 million lats or 10,6 %;
- 5) excise duty – 2.6 million lats or 0,8 %;
- 6) other taxes and payments – 4.0 million lats or 1,2 %.

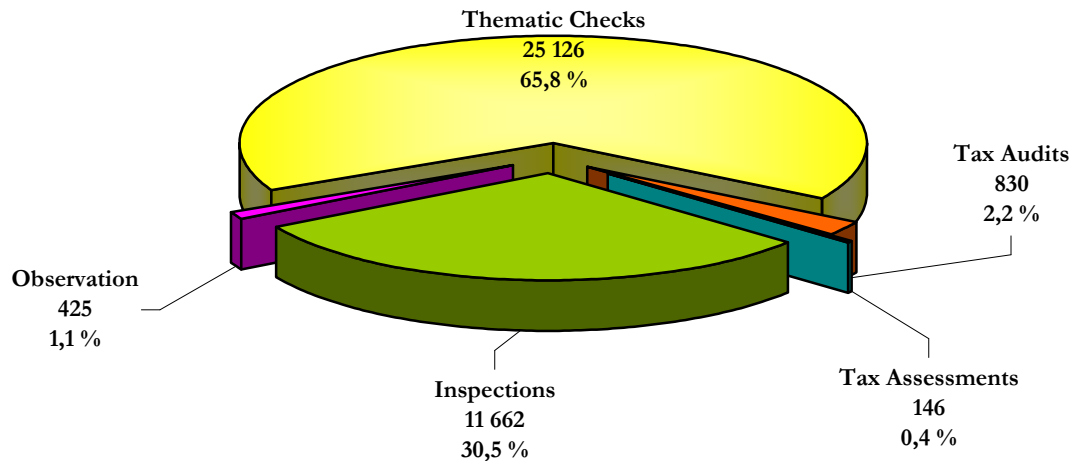
**The Amount Collected as a Result
of SRS Tax Enforcement, million LVL**



TAX CONTROL

The SRS Regional offices and the SRS Large Taxpayer Department have performed 41 535 tax control activities in 2008 – tax audits, thematic checks, observation and inspections of 22 073 legal persons (38 189 tax control activities) and 2 794 natural persons (3 346).

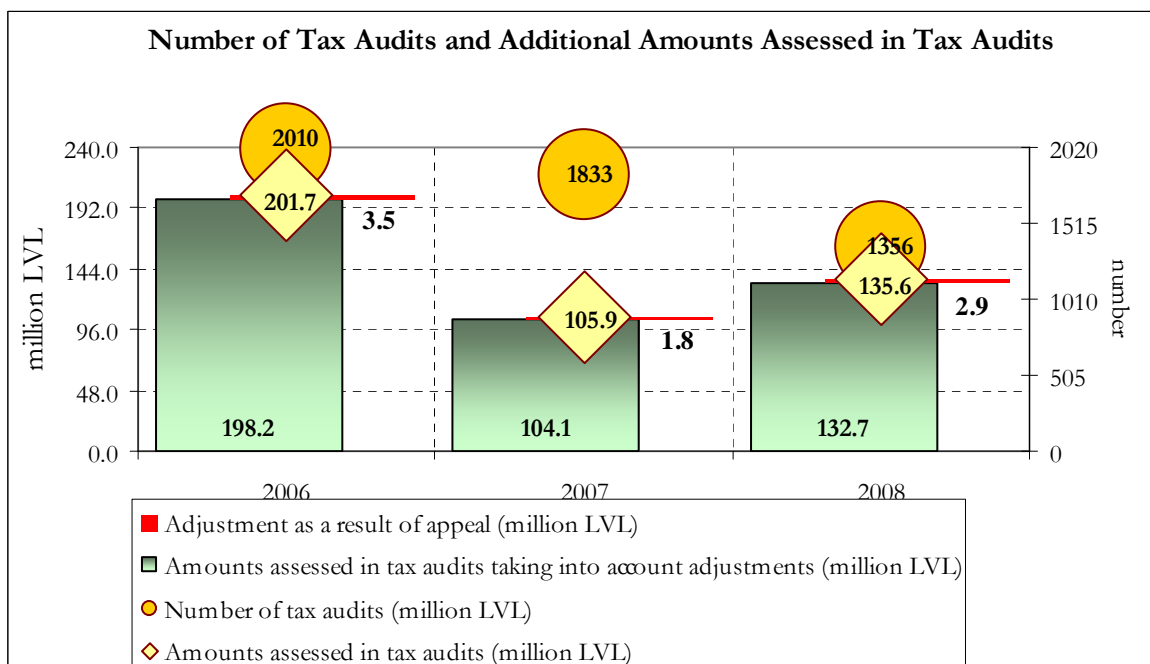
Tax Control Measures for Legal Persons in 2008, Division by Tax Control Measure Type



In 2007 65,8 % of all of the performed tax control activities on legal persons were thematic checks, 30,5 % - taxpayer inspections, 2,2 % - tax audits, 1,1 % - observations and 0,4 % – tax assessments.

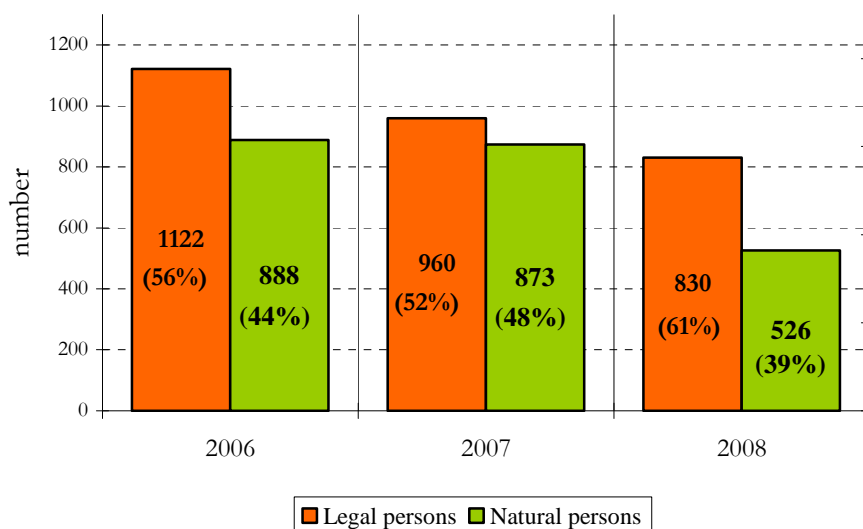
Tax Audits

The SRS institutions have performed 1 356 tax audits in 2008, in which additional 135,6 million lats were assessed to be paid to the budget.



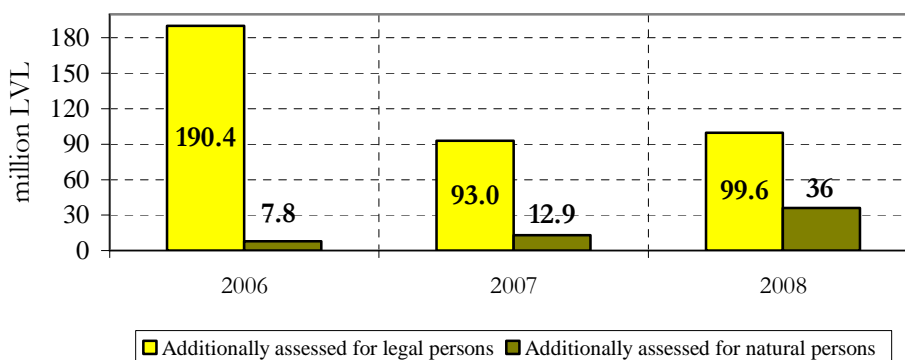
In the year 2008 830 or 61 % of all audits were carried out for legal persons and 526 or 39 % – for natural persons.

The Number of Legal and Natural Person Tax Audits



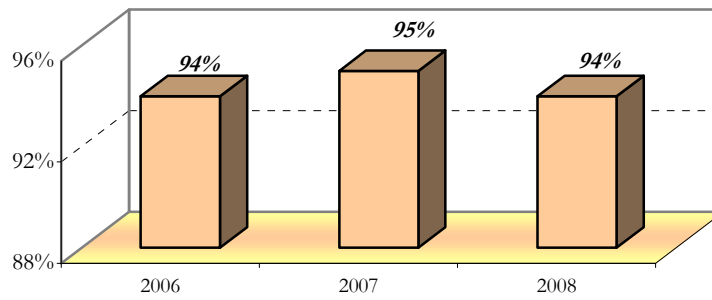
In 2008 in audits for legal persons the SRS additionally assessed 99,6 million lats or 73 % of the total amount assessed in tax audits. For natural persons the figure was 36,0 million lats or 27 %. In comparison to 2007, the additionally assessed amounts in audits for legal persons have increased by 6,6 million lats, and for natural persons – by 23,1 million lats.

Additionally Assessed for Legal and Natural Persons in Performed Tax Audits, million LVL



1 269 tax audits or 94 % of the total number of tax audits performed in 2008 were positive. Comparatively the performance efficiency in 2006 was 94 %, in 2007 – 95 %.

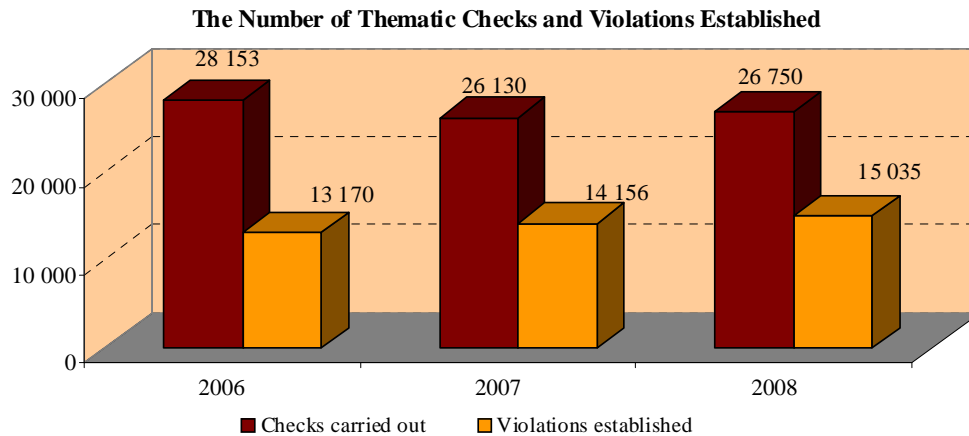
Effectiveness of Tax Audits



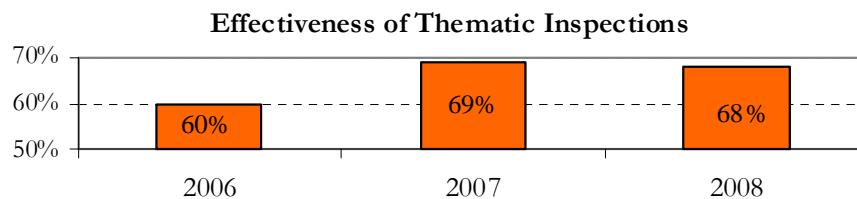
Thematic Checks

There has not been a significant increase in the number of thematic checks in 2008 and also the fines imposed have gone down, for over the last years we are shifting from quantity, when thematic checks cover as more taxpayers as possible, to quality. This means that thematic checks for taxpayers at the highest risk are carried out only after several preventive tax administration measures have taken place; preparation for thematic checks is done more thoroughly by using information analysis options provided by the SRS information systems; during the checks taxpayers are not punished for minor violations and are encouraged, if possible, to prevent and not repeat them.

In 2008 the total number of thematic checks carried out by the SRS was 26 750.



Effectiveness of thematic checks was 68 %, in 2008, which if compared to 2006 has increased by 8 % .



In 2008 on the violations detected in 5 025 thematic checks according to the Latvian Administrative Violations Code (LAVC) the SRS imposed fines in the amount of 506,1 thousand lats. Compared to 2007 the amount of imposed fines has reduced by 82,1 thousand lats or 14 %. In 2008 the average amount of fines imposed in thematic checks was 101 lat.

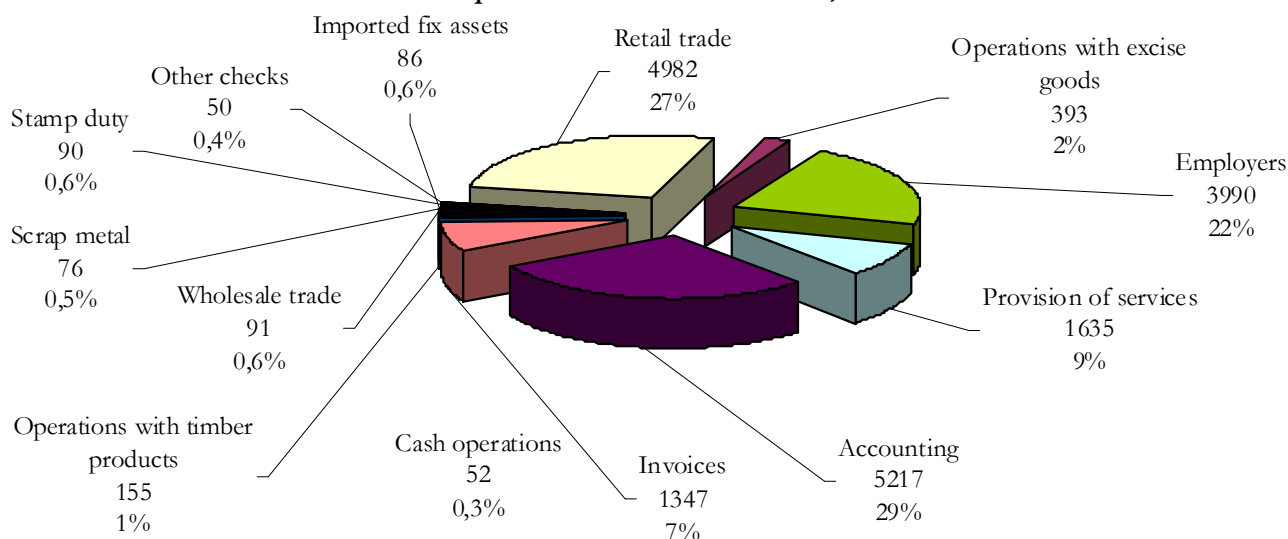
Fines imposed in thematic checks

Period	Number of thematic checks, for violations in which the fine was imposed	Total amount of imposed fines (thousand LVL)	Average amount of an imposed fine (LVL)
2006	7 477	577,4	77
2007	6 359	588,2	92
2008	5 025	506,1	101

During thematic checks in 2008 the SRS has mostly checked company accounting records (10 424), employers (9 294) and retail (7 226). Out of mostly checked themes of thematic checks, compared to the previous year, there has been a 5 % increase in the efficiency of thematic checks of employers, a 2 % increase in the efficiency of the theme "Accounting records" and the theme "Retail" showed 3 % less efficiency.

The bulk of violations were detected in the checks of accounting records – 29 % of all the violations detected.

The Number of Violations Established during Thematic Checks and Percentage in Comparison with Different Cases, 2008



In 5 217 cases or 50 % of the 10 424 performed thematic checks on company accounting the SRS institutions have established that the accounting in the companies is not maintained according to the provisions of normative acts. For the violations detected the SRS according to the LAVC in 1 688 cases imposed fines in the amount of 163,3 thousand lats.

Employers were checked in 9 294 inspections; the violations were detected in 3 990 cases or 43 %. The most common violations detected during these inspections in 2008:

- 1) the violations of normative acts regulating labour;
- 2) taxes from employees' salaries are not correctly calculated and/or paid;
- 3) violations in the registration of working time;
- 4) labour contracts with 1456 employees have not been signed;
- 5) the information on employee movement has not been submitted to the SRS;
- 6) the report "Statement on the Mandatory state Social Insurance Contributions from Employees' Work-related Income, Personal Income Tax and Business Risk State Duty in the Reporting Month" submitted to the SRS contains discrepancy with company accounting data (121).

For the violations detected in the thematic checks of employers the SRS according to the LAVC in 247 cases imposed fines in the amount of 107,5 thousand lats.

Retail checks proved to be efficient in 4 982 cases or 69 %.

Mostly the violations were related to non-compliance to procedures of goods accounting and circulation of invoices (1 784 cases), unregistered revenues (307), as well as violations in the use of cash registers:

- 1) cash register's book is not kept in accordance with law requirements (1 938);
- 2) non-compliance to cash register's maintenance regulations (1 830);
- 3) cash amount in the cash register does not correspond to the amount indicated in the control printout (1 089);
- 4) non-issuance of electronic cash register's receipts or documents proving the transaction (221).

For the violations detected in retail checks the SRS according to the LAVC in 1 787 cases imposed fines in the amount of 105,0 thousand lats. The fine was imposed in 36 % of retail violations cases.

Provision of services was inspected in 5 212 thematic checks, violations were detected in 1 635 cases or 31 %. Upon checking this theme most frequently – in 648 cases – the SRS detected non-compliance to procedures of goods (services) accounting and circulation of invoices and bills.

The thematic checks focused on invoice processing, accounting and compliance to storage procedure. There were 3 516 such checks, and violations were detected in 1 347 of cases or 38 %.

2 0269 checks were carried out in relation to activities with excise goods, violations were detected in 393 cases. Mostly violations relate to non-compliance to circulation procedures of excise goods and invoices (156 cases). For the violations detected the SRS according to the LAVC in 123 cases has imposed fines in the amount of 11,2 thousand LVL.

Improvements to Tax Control Work

Information System for Support of Thematic Inspections (TAP AIS)

Within the framework of *Phare 2003* project "Tax Control Improvement within the State Revenue Service" the TAP AIS system has been developed. The system provides a common principle within the process of thematic checks, namely, to plan and follow up its progress, to fill in different forms, as well as to use "Tip Library" which contains electronic information on law norms, the SRS methodological instructions on the administrative practice of the themes to be checked, to receive from the SRS information systems information on taxpayers etc. In 2008 TAP AIS was fully implemented in the SRS activity.

Natural Person Risk Analysis System (RASA)

In 2008 the development of Natural Person Risk Analysis System was continued. The system will be used for carrying out preventive and control measures for natural persons who do not declare or only partly declare their income and whose expenditure exceeds the declared income and also to identify unregistered business activity.

It is planned to launch the system within the SRS in 2009.

Taxpayer consultation, information, education and use of the SRS Electronic Declaration System

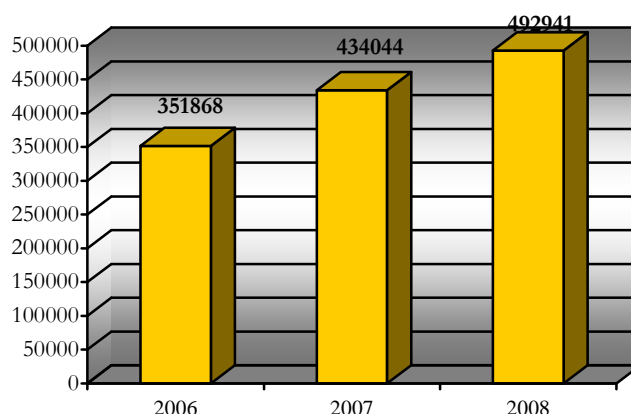
Implementing the duties provided for in normative acts and the SRS strategy, the SRS is actively engaged in taxpayer consultation.

Taxpayer consultation within the SRS is carried out on three levels and via all possible means of communication.

The following options are provided:

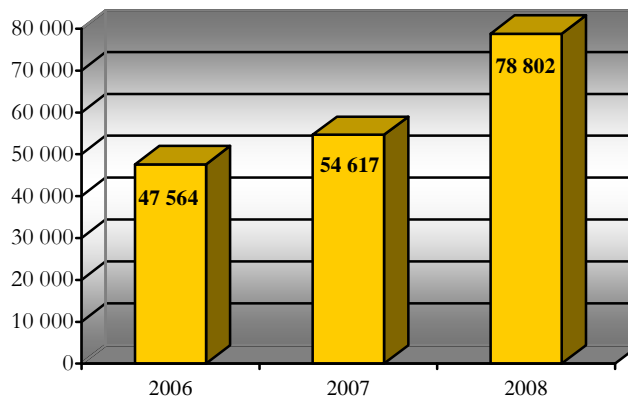
- written, face-to-face (verbal), electronic or phone consultations on the application of tax laws;
- participation in education events – seminars, lectures, discussions etc. on tax law application issues;
- receiving booklets, informative and methodological materials on changes in tax laws or new laws. The materials are sent out electronically and also available on the SRS website and in client service halls.

The Number of Consultations Provided to Taxpayers



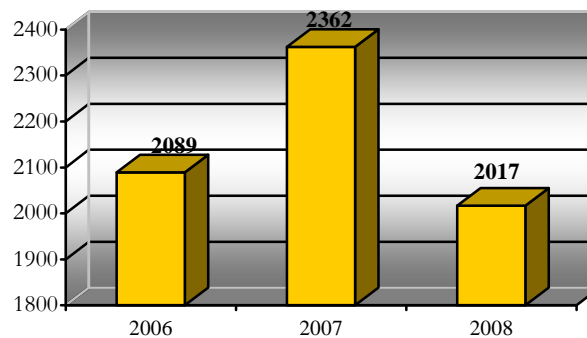
Altogether in 2008 the SRS local offices and the SRS Large Taxpayer Department have provided 492 941 consultation. Compared to 2007 the total number of consultations provided increased by 58 897 or 13,6 %, and compared to 2006 the total number of consultations provided has increased by 141 073 or 40,1 %.

Answers Provided on the SRS Helpline on Tax Administration Matters



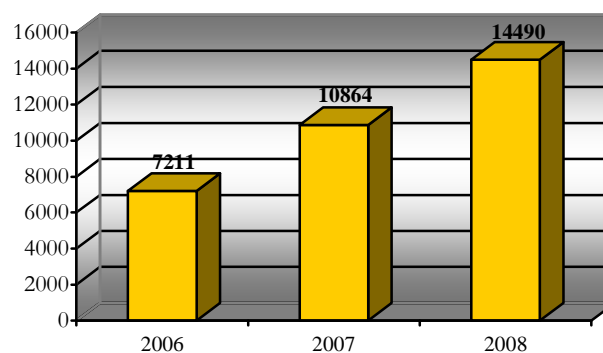
In 2008 there were 78 802 answers to tax administration issues provided by the SRS helpline. Compared to 2007, the number of calls has increased by 24 185 or 44,3 %; and compared to 2006 – by 31 238 or 65,7 %. The number of consultations provided by the SRS info line increased because of opening a SRS call centre as of 1 January 2008, thus it was possible to increase the number of operators and also provide more intensive operator work gradually acquiring optimum skills in the use of this specific means of communication.

Number of education events organized for taxpayers (seminars, discussions, lectures etc.)



Compared to 2007 in the year 2008 the number of events organized has decreased by 345 or 14,6 %. Compared to 2006 the number of events has gone down by 72 or 3,4 %. The decrease is explained by the fact that taxpayers prefer individual consultations, individual approach.

Number of taxpayers to whom informative materials are sent electronically



During the period from 2006 to 2008 the number of those taxpayers to whom the SRS informative materials are sent electronically has increased; and this is a convenient, cheap and fast means of communication with a taxpayer. In 2008 electronic informative materials were sent out to 14 490 taxpayers, which is 3 626 or 33,4 % more than in 2007 and 7 279 or 100,9 % more than in 2006.

Materials are sent out also to 24 professional associations, thus the actual number of users includes also all the members of these associations.

Electronic Declaration

In 2008 there were already 69 373 users of the SRS EDS. Out of them 44 033 taxpayers filed their tax and informative returns electronically. Comparing the number of EDS users at the beginning and at the end of 2008, the number of taxpayers using the SRS EDS has increased by 150 %. There has also been a significant increase in the number of documents filed electronically. In 2008 the figure was 1 998 417. The average monthly filing figure was 150 thousand documents. Compared to 2007 (865 495 documents), in 2008 the number of electronically filed documents has doubled.

In 2008 the taxpayers had an option not to conclude an agreement with the SRS on signing documents with the electronic signature when using the services provided by the SRS EDS and register within the SRS EDS, using the secure e-signature card issued by the state joint stock company "Latvijas Pasts".

Taxpayers can not only submit tax and informative returns but also make electronic requests for waybill numbers, register tickets and bills, verify the VAT registration of a transaction partner, as well as require information (statements) on tax payment account, registration data and other information available in the SRS database.

CUSTOMS ISSUES

Ensuring Customs Payment Collection

294,82 million lats were collected in 2008 into the main budget from the customs duty and other tax payments administered by other customs institutions, which include the value added tax when releasing the goods into free circulation – 245,9 million lats, excise duty when importing goods for releasing into free circulation – 22,53 million lats, and customs duty – 26,39 million lats.

In 2008 the collection of taxes administered by customs authorities was 10,76 million lats or 3,52 % less than in 2007.

Taxes administered by customs authorities by their types

Type of taxes	Revenues (thousand lats)		Increase/decrease (2008 – 2007)	
	2007	2008		
Value added tax when releasing goods into free circulation	258 007,92	245 904,32	- 12 103,60	- 4,69 %
Excise duty when importing goods for releasing into free circulation	19 727,49	22 529,37	2 801,88	14,2 %
Customs duty	27 845,90	26 389,80	- 1 456,10	- 5,23 %
Total in state basic budget	305 581,32	294 823,49	- 10 757,82	- 3,52 %

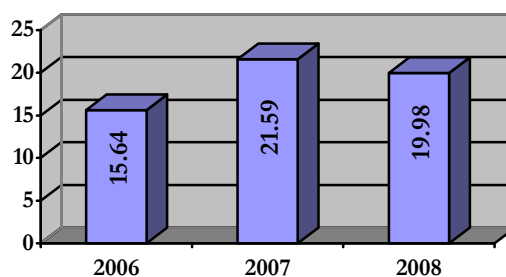
Administration of Traditional Own Resources

To ensure the participation of Latvia in financing the budget of the European Union, the National Customs Board of the SRS performs the account and control of traditional own resources collected by customs institutions.

The traditional own resources of the European Union are formed from part of the payments, which are collected by the customs institutions – customs duty, product compensations, antidumping duties, and payments introduced according to the Common Agriculture Policy. According to the normative acts of the European Union, 75 % of the calculated amount of traditional own resources is transferred to the budget of the European Union, while 25 % of the amount is kept by the Member State as collection costs.

As a result of the administration of the traditional own resources in 2008 there were 19,98 million lats transferred to the European Community's account of the Bank of Latvia, constituting 1,62 million lats or 7 % less than in 2007 (21,59 million lats).

Amounts of Own Resources Transferred to the EU Budget, million LVL



Customs Audits

In 2008 there were 714 customs audits (92 customs audits of companies and 622 audits of transactions) which are 396 customs audits or 125 % more than in 2007. The audits resulted in additional assessments of customs debts, debts of other taxes administered by customs authorities, fines and late interest payments in the amount of 2,26 million lats which is 2,05 million lats or 52 % less than in 2007.

Enforced collection

In 2008 there were 543 cases received for enforced collection on an uncontested basis in the total debt amount of 2,33 million lats. As a result of enforcement activities of the customs authorities the late customs payments collected amounted to 1,1 million lats which is 0,83 million lats or 42 % less than in 2007.

Protection of Society

To ensure the protection of society against goods which are harmful to the health and environment, as well as the protection of the common market of Latvia and the Community, the customs staff employs various measures to combat violations against intellectual property rights, the illegal movement of excise goods, narcotic and psychotropic substances, and other illegal activities.

Regarding the detected violations of customs regulations in 2008 the staff of customs enforcement divisions of the local offices has drawn up 885 protocols on administrative violations (PAV) which is 181 PAV or 20,5 % more than in 2007. The total amount of fines imposed according to the LAVC on legal and natural persons was 95,28 thousand lats.

Out of all PAV 24 % or 215 PAV were drawn up for illegal import of cigarettes from third countries to Latvia and for violating intra-Community carriage regulations; and 14 % or 123 PAV – on illegal movement of petroleum products across the customs border. In 36 cases the customs authorities prevented imports of goods dangerous to consumers.

On the basis of case materials sent by the staff of customs enforcement divisions of the local offices to the law enforcement institutions, in 33 cases criminal proceedings were initiated. In 14 cases violations were detected by customs services of other countries on the basis of the information provided by the Latvian customs authorities.

In 2008 the SRS started training dogs for searching tobacco products. As of July when three newly-acquired tobacco searching dogs started customs service by the end of the year with the help of service dogs the authorities seized 236 100 cigarettes or 11 805 packs of cigarettes.

As a result of physical inspections	2006	2007	2008
The number of issued administrative offence statements	694	704	885
Imposed fines (thousand lats)	76,64	77,22	95,28
Calculated fines (thousand lats)	100,39	68,35	12,96
The number of seizure cases	271	212	355



Protection of Intellectual Property

The number of violations detected in the area of protection of intellectual property compared to 2007 has increased by 2.3 times. In 2008 the customs control has detected 182 cases of counterfeit trademarks, in 2007 – 81. In 2008 there were 46 PAV drawn up for violations of intellectual property rights.

In 2008 compared to 2007 there is a trend of more frequently detecting small amounts of goods marked with counterfeit trademarks. The total amount of counterfeit goods has decreased from 782 units in 2007 to 82 782 units in 2008, while the damage prevented to the legal subjects has increased from about 2,1 million lats in 2007 to about 2,6 million lats in 2008.

In 2008 similarly to previous years, the highest percentage of counterfeit goods constituted clothing, shoes and accessories – about 50 %. The next categories are toys – 11 %, perfumery – 8 %, electrical goods – 6 %, vehicle spare parts – 4 % and other counterfeit goods. Mostly there were attempts to import counterfeit goods from China, however, there were also several cases when customs authorities detected attempts of importing goods with counterfeit trade marks from the United Arab Emirates, Turkey, Russia, Ukraine and other countries.



Combating of Narcotic Substance Smuggling

In cooperation with the SRS structural units and other state enforcement institutions, in 2008 the customs dog handlers together with service dogs trained for searching drugs, in 30 cases detected 598,06 g of narcotic substances – heroin, cocaine, hashish, marihuana etc., psychotropic substances – xanax and extazy tablets, as well as firearm cartridges.

The customs dog handlers very successfully participated in the 6th European Championship for Customs Drug Searching Dogs which in 2008 took place in Latvia. The customs staff member Rolands Kozlovskis together with a drug searching dog Sammy won in the individual competition and the Latvian team got the third place in the competition of customs dog handlers from 19 countries.

Control of the Goods of Strategic Importance and Dual-Use

In 2008 there were 16 PAV on illegal carriage of strategic and dual-use goods, in 2007 for such violations there were 14 PAV.

Movement control of conventionally protected goods

In 2008 customs staff detected 42 violations of the Washington Convention on the International Trade in Endangered Species of Wild Flora and Fauna which is 2.3 times more than in 2007 when there were 18 violations detected.

As a result of detecting these violations legal and natural persons were deprived of 97 individuals of different endangered species and items made of them, including brown bear skin, ivory statuette, 10 figures made of walrus tusk, 39 fragments of coral colonies, 18 bottles with spirituous liquid containing snakes of protected species, 19 items made of crocodile or snake skin – wallets, handbags, shoes, belts etc. Last year the authorities detected also 110 480 items of cosmetic containing the extract of medicinal leeches which are included in the CITES Convention.



Cash Declaration Control

The SRS customs divisions are the competent authority of the Republic of Latvia, which ensures cash movement control when travellers cross the external border of the European Union. Since 1 July 2006 the regulations are in force in the Republic of Latvia to declare the cash funds on the external borders of the European Union, if the amount reaches or exceeds 10 000 Euro or equal amount in the currency of other country.

Upon crossing the Latvian border in 2008 there were 161 cash declaration submitted accounting for the total amount of 43,01 million euro, including upon arrival to Latvia there were 52 cash declaration submitted accounting for the total amount of 24,4 million euro which is 19 declarations and 19,35 million euro more than in 2007. Upon departure from Latvia in 2008 there were 109 cash declarations submitted accounting for the total amount of 18,61 million euro. Compared to the previous year the number of declarations has reduced by 11 declarations but the declared amount has increased by 4,66 million euro.

In 2008 there were no cases detected when upon crossing the border of the Republic of Latvia natural persons would try to bring in the customs territory of the European Community undeclared cash – 10 000 euro or more.

Movement Control of Alcoholic Beverages in the Luggage of Individuals

Regarding the violations in alcohol movement detected by the staff of the SRS Customs Enforcement divisions of local offices in 2008, 18 PAV were drafted (17 – for natural persons,

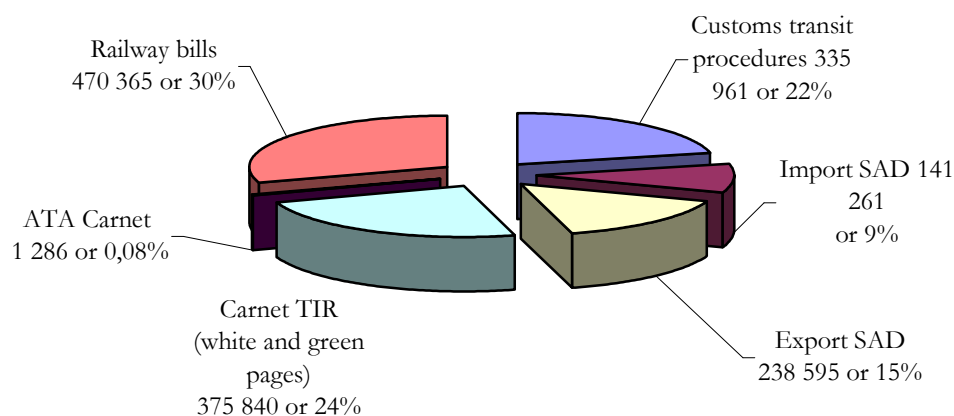
1 – for legal person). Preventing these violations resulted in seizure of 41 880 kg and 109,70 litres of alcohol.

Promotion of trade

Customs Processing

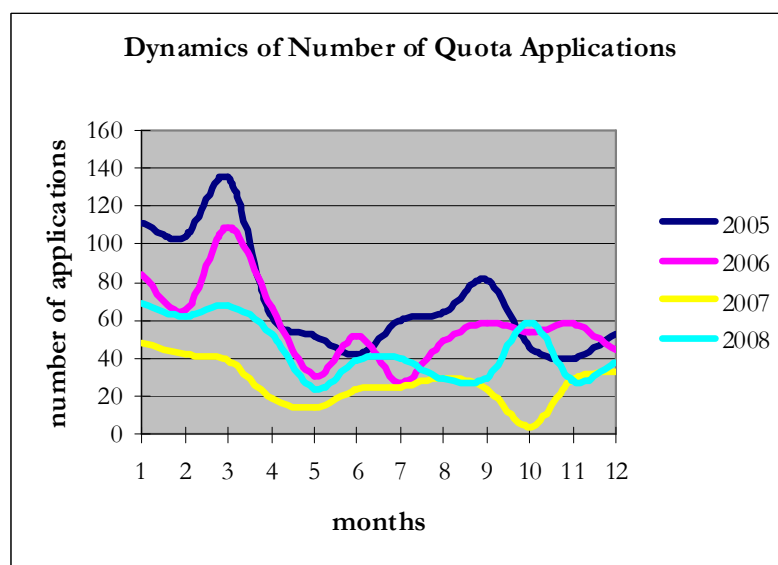
1 563 308 customs inspections were executed in the checkpoints of customs offices of the SRS Regional offices in 2008, including 774 809 customs inspections started and 788 499 concluded. Compared to 2007, the number of started and closed customs procedures processed has reduced by 10 469 or 0,67 %.

Processed Customs Procedures (Started and Closed) in Latvia in 2008 by Types



Administration of EU tariff quotas

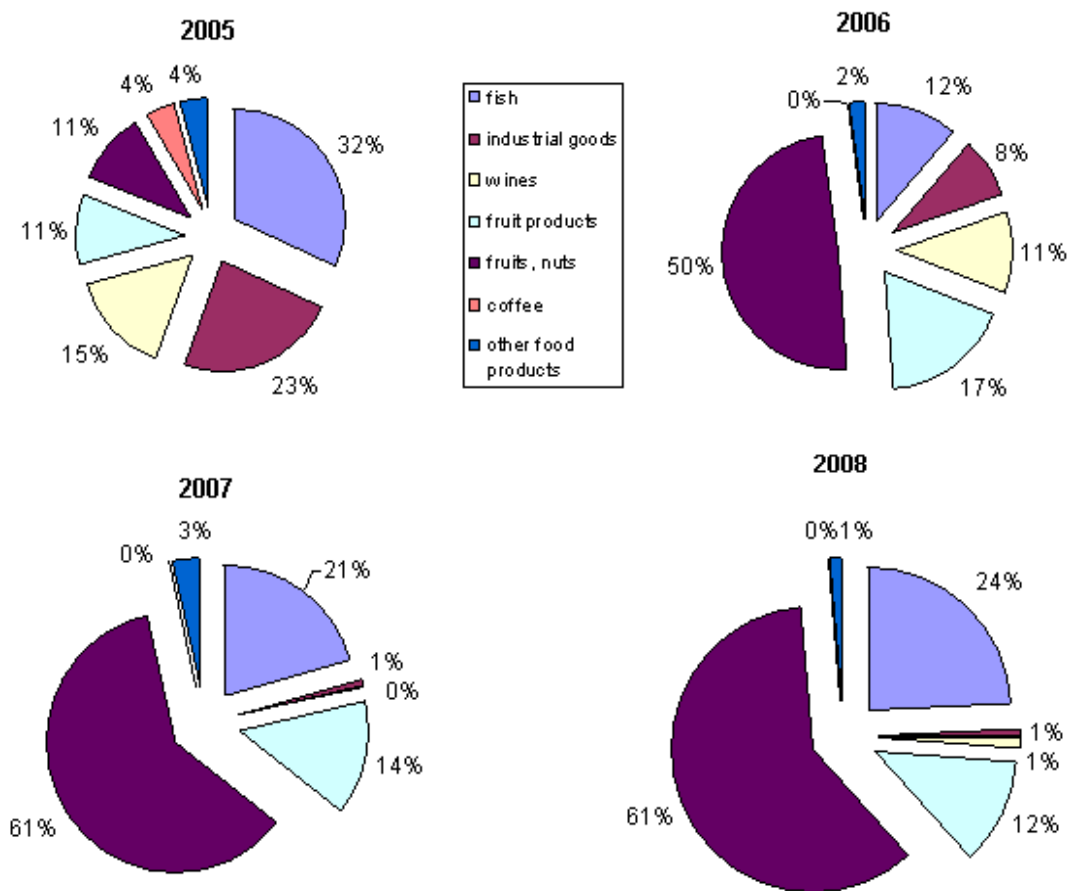
In 2008 the authorities received from businesses and sent to the European Commission 539 applications for tariff quotas. The requested tariff quotas were completely (100 %) allocated in 524 cases, refusal because of quota exhaustion was received in 15 cases.



In 2008 the highest demand there was for tariff quotas set for import of food products. 58,2 % of to total amount of products for which the quotas were requested were oranges of Egypt origin, 23,39 % - Norwegian fish products, 9,03 % - juice concentrate of Mexican oranges, 9,31 % - almond nuts, table grapes, pastry products, alcoholic beverages and other goods.

By using the option to apply for customs tariff quotas and import particular goods from third countries at reduced or 0 rate customs tariff rate, in 2 008 there were about 5 500 tons of oranges, 2 300 tons of fishes and fish products, 100 tons of orange juice, 150 tons of almond nuts, 110 hectolitres of wine, 88 hectolitres of apple juice, 84 tons of pastry products, 74 tons of grapes, 37 tons of preserved fruits, as well as other goods imported to Latvia.

Percentage of quoted goods by years



Promotion of Foreign Trade

To improve the cooperation with entrepreneurs the SRS is continuously offering various incentives to make customs inspections flow smoothly. To accelerate and simplify the processing of customs inspections a simplified customs clearance permit, which include various legal forms, is issued to commercial entities.

The title of legal form (permit)	The number of legal forms (permits) granted (including re-registered) in 2008	The total number of granted legal forms (permits)
Recognized sender (customs procedure – transit)	8	90
Recognized recipient (customs procedure – transit)	10	84
Recognized importer	2	47
Recognized exporter	3	45

Realizing the role of trade in the world economy and not wanting to delay cargo delivery, as of January 1 2008 EU and also Latvian businesses are given the option to receive the status of an Authorized Economic Operator (AEO). An Authorized Economic Operator is a trader who is considered a reliable partner within the context of customs operations; and therefore he is eligible of using the customs advantages within the whole European Community. In 2008 the AEO certificate was granted to three companies.

Dialogue with traders

To ensure regular and effective cooperation between the customs administration and its social partners, the Customs and Trade Consultative Council continued its work also in 2008; in 2008 the Council held three meetings: on 17 April, 2 October and 20 November.

The Customs and Trade Consultative Council consists of active representatives of professional unions and associations but also representatives of separate companies are given the option to submit to the council secretariat questions they would like to receive expert explanations to during the regular meeting. The participation of the Ministry of Finance representatives in the Customs and Trade Consultative Council will allow the discussion of the current issues within the further business facilitation context.

The Council consists of the Director of the National Customs Board, or during his absence – acting director of the National Customs Board, authorized staff members of the SRS National Customs Board and representatives of the following business and Professional unions (associations): Association of Auto Forwarders "Latvijas auto", Latvian Association of Logistics, Latvian Association of Freight Forwarders and Logistics, Latvian Association of Transit Business, Latvian Chamber of Commerce and Industry, Latvian Trade Association, Latvian Fuel Traders Association, Latvian Fuel Traders and Producers Association, Latvian Stividor Company Association, Latvian Association of Suppliers for Ships.

To expand and facilitate the dialogue with businesses in customs issues, the Customs and Trade Consultative Council meetings are regularly held by the National Customs Board as of 1 May 2004.

Providing consultations in general customs issues

21 997 consultations were provided on general customs issues in 2008, from which 16 207 consultations or 73,7 % were provided by the customs officials from the Legal Department of the SRS National Customs Board, while 5 790 consultations or 26,3 % were provided by customs officials of the SRS Regional offices.

The majority of consultations were provided on the customs payment issues, TARIC, customs inspections, declaration of cash, and work organization of customs.

Improving Access to Information

To facilitate the opportunities of companies to plan their work more effectively, in 2008 the SRS continued to provide the customs clients with the information on car queues and the approximate waiting times at the border control points (BCP) "Terehova" and "Grebņeva". As of 2007 every interested person in Latvian and Lithuania via sms can obtain information on cargo vehicle queues on the Latvian-Russian border. In 2008 there were 41 319 information request

sms received, and more than one third of those requesting information were Lithuanian freight forwarders.

The Most Important Customs Projects of 2008

In 2008 a significant job was done to implement the EU customs policy initiative of Electronic customs (E-Customs). As of 1 January 2009 the customs ensured the possibility to file the TIR data in the Economic Operators module of the New Computerized Transit Control System (NCTS). In 2008 the SRS continued or started introducing the customs information systems which are to start working in the second half of 2009 – the national Export Control System, the national Import Control System, the Economic Operators' Registration and Identification System and the second phase of the IT system of the Authorized Economic Operators.

Implementation of the EU E-customs initiative aims to enhance the efficiency of risk analysis and strengthen the Community's security, simplify customs procedures and processes and accelerate the movement of goods across the EU border.

To facilitate the capacity of Latvia as a transit country, streamline the customs client service and provide effective customs control, the SRS in 2008 continued the project to improve the infrastructure on the EU external border. In summer 2008 the expertise of the reconstruction projects of the Terehova, Grebņeva and Vientuļi BCPs was accomplished. Taking into account the tough economic situation in the state and the budget cuts for 2008 and 2009, a decision was made to accomplish according to the confirmed plan only the Grebņeva BCP. The planned modernization of Terehova and Vientuļi BCPs has been suspended.

To strengthen the protection of the EU external border and facilitate anti-fraud preventive measures, in 2008 the Latvian customs introduced the Automatic Vehicle and Container Identification System, in 2008 the installation of a scanner was accomplished in Zilupe BCP. The scanner installed in the territory of Zilupe BCP is the first scanner in Latvia to check the railway rolling stock.

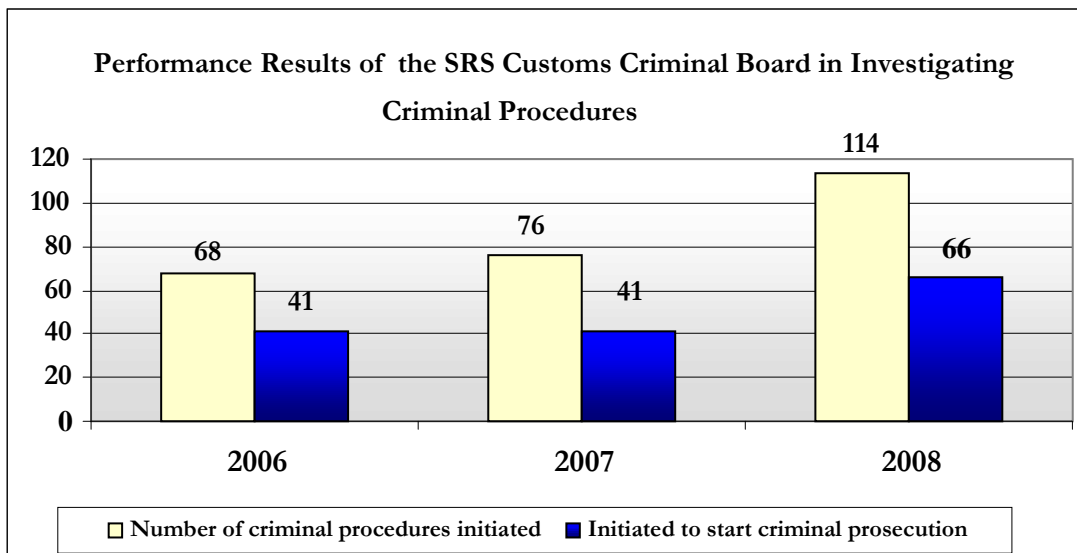
Performance results of the SRS Customs Criminal Board

Investigation of Criminal Cases on Customs Offences

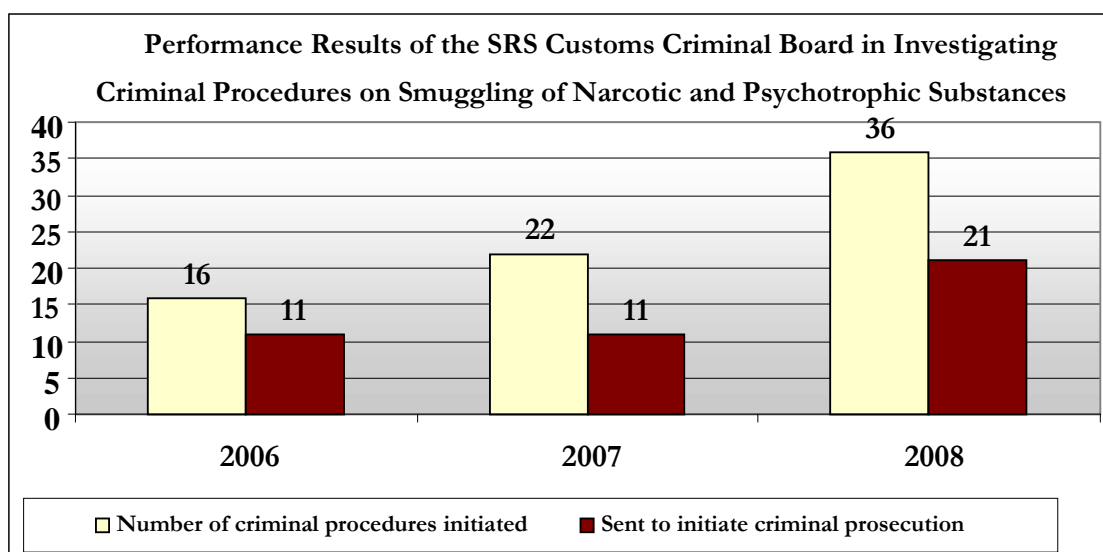
To discover and prevent customs offences the investigation of criminal cases and operational activities is performed by the employees of the SRS Customs Criminal Board.

In 2008 the SRS Customs Criminal Board acted according to the objectives for 2005-2009 set in the Strategy for Smuggling Prevention and Combating. In 2008 the reorganization of the SRS Customs Criminal Board was practically finished, and also the Secret Observation structure started its work in 2008 performing 31 task.

In 2008 the SRS Customs Criminal Board numerically has shown the highest criminal procedural investigation results since its establishment. Totally in 2008 there were 114 criminal procedures initiated which is 37 criminal procedures more than in 2007; and there were 66 criminal procedures sent for initiating criminal prosecution which is 25 more than in 2007. On the 31 December 2008 there were 185 criminal procedures under the SRS Customs Criminal Board's investigation.



In 2008 the SRS Customs Criminal Board has initiated and sent for criminal prosecution the highest number of criminal procedures on smuggling of narcotic or psychotropic substances in its history – initiated 36 criminal procedures and sent for criminal prosecution - 21 criminal procedures.



In 2008 the SRS Customs Criminal Board in combating the drug distribution successfully cooperated with structural units of the State Police by common planning of their resources and operations. This resulted in more effective combating of activities of criminal groups. If the common activities resulted in detaining drugs and persons inland, the criminal procedure was initiated by the State Police. If the detention took place on the state border or on roads near the border – the procedure was initiated by the SRS Customs Criminal Board. As the most successful example of this cooperation could be named the detection of approximately 100 m² marihuana nursery in a rural farmstead in the Laucene rural municipality of Talsi district as a result of operative activities on 27 October 2008. In this case the search was carried out and 5.3 kilograms of hashish, 18 kilograms of marihuana and 1 905 marihuana seedlings which in undried form constitute about 150 kilograms of marihuana were alienated.

Seized narcotic and psychotropic substances

Detained Narcotic and Psychotropic substances	Narcotic or psychotropic substances seized within the framework of criminal procedures initiated by the SRS Customs Criminal Board		Narcotic or psychotropic substances seized as a result of cooperation between the State Police and the SRS Customs Criminal Board	
	2007	2008	2007	2008
Undried marihuana (grams)				150 630
Marihuana (grams)	9,8736	1 369,7777	3 701,5	2 5408,47
Cocaine (grams)	4 004,795	1 367,964	13 401,905	1 492,78
MDMA tablets (grams)	2 478,218		16 159,4	
Hashish (grams)	36,053	13,8489		5 290
Methamphetamine (grams)		136,4899		2 804,257
Amphetamine (grams)			2 279	34,3
Lidocaine/caffeine mixture (grams)				1 938
Poppy straws (grams)	450		1 164	
Heroin (grams)	0,7889	154,3582	419	41,33
MDMA (grams)		10,4405		359,02
LSD marks			126	
Xenobarbital (grams)		1,16		
Codeine (grams)		0,928		
Diazepam (grams)		0,02		
Methadone (grams)		0,015		
Bromazepam (grams)		0,006		
Alprazolam (grams)		0,003		
Trihexifenidil (grams)		0,009		

The Most Significant Criminal Investigations Started in 2008 on Smuggling of Narcotic and Psychotropic Substances

On 17 February the SRS Customs Criminal Board staff in Ventspils while carrying out an inspection of a truck belonging to a Lithuanian citizen in concealment detected one kilogram of cocaine. For the violation detected a criminal procedure was initiated which on 12 May 2008 was sent for criminal prosecution.

On 13 October 2008 – in the night from Sunday to Monday shortly after midnight the SRS Customs Criminal Board staff while checking the passengers of the bus "Vilnius – Riga – Tallinn" with a person from the Republic of Latvia found 93,75 grams of heroin which is the largest amount of this narcotic substance the SRS Customs Criminal Board has detected since its establishment.

On 13 November 2008 the SRS Customs Criminal Board staff while carrying out a customs control of a car detained on the Latvian-Estonian border, detected and seized a package of 1 kilogram which according to the expertise contained 281,8669 grams of cocaine.



One kilogram of cocaine detected in concealment in a truck in Ventspils, 17 February 2008



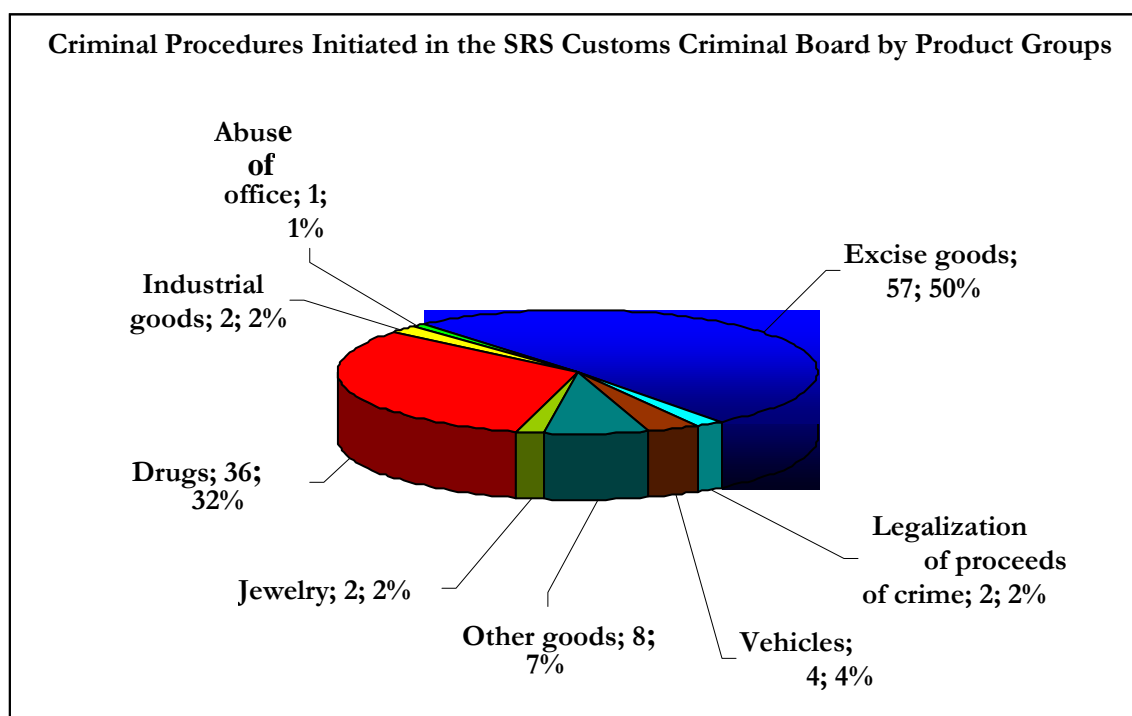
281,8669 grams of cocaine seized on Latvian-Estonian border, 13 November 2008

Combating of Organized Crime and Investigation of Other Crimes

The objective of the SRS Customs Criminal Board in the area of combating of organized crime is to create obstacles for operation of organized crime groups by seizing and confiscating smuggled goods or in other ways harass these organizations. In 2008 the SRS Customs Criminal Board has significantly interrupted with the activity of organized crime groups in the customs area in 45 cases, including 24 cases in cooperation with other law enforcement institutions on a national and international level. In 2007 there were 15 such cases.

Like in the previous year there still was a trend that bulk of the initiated criminal procedures were on smuggling of excise goods, and the number of criminal procedures initiated on drugs was in the second place. In 2008 the SRS Customs Criminal Board initiated the following criminal procedures:

- 1) on smuggling of excise goods (cigarettes, alcohol, fuel) – 57;
- 2) on smuggling of narcotic and psychotropic substances – 36;
- 3) on smuggling of precious metal products – 2;
- 4) on smuggling of manufactured goods (clothing and sanitary ware)– 2;
- 5) on car smuggling (cars/vans)– 4;
- 6) on illegally acquired property – 2;
- 7) on office abuse – 1;
- 8) legalization of proceeds of crime – 2;
- 9) on illegal movement of other goods over the border of the Republic of Latvia – 8.



In 2008 within the criminal investigations the SRS Customs Criminal Board has removed 30 421 540 units of cigarettes of various brands, 350,76 litres of alcohol, 1 550 litres of fuel and other goods.

The Goods Seized within the Criminal Investigations Started in 2008

Goods seized	Amount
Cigarettes (items)	30 421 540
Alcohol (litres)	350,76
Fuel (litres)	1 550
Shoes (pairs)	291
Clothing (units)	23 044
Cars (items)	1
Car spare parts (units)	38
DVD discs with records (items)	1 062
Washbasins (items)	789
Tobacco production equipment	2
Jewelry (grams)	5 695,62
Marine vessel engine (items)	2
Money (EUR)	230 755
Money (USD)	843 000
Food additions, medicines, various vitamins (packages)	1 700
Medicines (grams)	70
Medicines (tablets and capsules)	1 792
Medicines (packages with powder substance)	11
Medicines (solution) ml	94
Medicines(solution) mg	250
Electronic appliances and their components (units)	130

The Most Significant Criminal Investigations Started in 2008

On 17 March 2008 a criminal procedure was initiated after the SRS Customs Criminal Board Staff while carrying out an inspection in a warehouse belonging to a company in Īsliče rural municipality of Bauska district detected and seized 7 790 000 cigarettes with the total value of 60 000 lats.

On 11 July 2008 the SRS Customs Criminal Board SENT for criminal prosecution a smuggling case detected on 30 March 2008 regarding the smuggling of 2,3 million cigarettes of various brands with Russian tax markings causing the loss of 104 352,29 lats unpaid to the state budget.

On 18 July the SRS Customs Criminal Board staff when carrying out an in-depth customs control of a cargo container of time out shoes imported on a Chinese vessel detected a large-scale contraband of cigarettes – 9 410 000. The criminal procedure for the violation detected was initiated on 22 July 2009.

On 24 July 2009 the SRS Customs Criminal Board staff when carrying out an inspection of a van, crossing the Latvian-Russian border via Grebņeva customs control point, detected 10 240 000 of contraband cigarettes. Later upon the cargo in-depth inspection it was determined that besides the contraband cigarettes it contains also strategic goods – control units of army aviation aircraft device, microschemes, radiolocation equipment etc.

On 4 December 2008 the SRS Customs Criminal Board sent for the criminal prosecution a criminal procedure on the contraband of 21 134 540 cigarettes which brought together two largest cases of cigarette contraband detected by the SRS Customs Criminal Board in 2007. One procedure combined the criminal procedure initiated on 27 July 2007 on the contraband of 11 999 400 "Jin Ling" and 199 600 "Sovereign King Size" which were concealed in the car trailer behind the bags containing ceramsite and the criminal procedure initiated on 27 October 2007 when the SRS Customs Criminal Board staff on a company's rental site in Rēzekne detected 8 935 540 cigarettes "Jing Ling".

In August 2008 the authorities sent for criminal prosecution two criminal procedures (initiated this year) on smuggling of gold and silver jewelry in the value of more than 50 000 lats. The first procedure was initiated on 25 February 2008 when the SRS Customs Criminal Board staff in the Riga airport in the luggage of two citizens of the Republic of Latvia arriving from Switzerland detected nearly 4 kilograms of golden and silver jewelry in the value of more than 30 000 lats. The other criminal procedure was initiated in June 2008 when staff of the Customs Enforcement Division of the SRS Riga Regional Office in the Riga airport detained a Lithuanian citizen who tried to import without declaration into the customs territory of the Republic of Latvia about 2 kilograms of golden and silver jewelry in the value of 20 000 lats which were concealed in two bags which with flexible strings were attached in the area of ankles under trousers.

In November 2008 there were also two criminal procedures initiated on legalization of proceeds of crime. In the first case the criminal procedure was initiated after on 11 November 2008 the SRS Customs Criminal Board staff when carrying out a control of a passenger bus stopped in Grenctāle found a package which was formed as a gift and contained 343 000 USD in cash. The other case was detected on 14 November 2008 when the staff of mobile units of the SRS Customs Criminal Board when carrying out control measures in the Riga international with one passenger found 439 674 lats (500 000 USD and 230 755 EUR) in cash.



7 790 000 cigarettes detected in a warehouse in Īslīce rural municipality in Bauska district, 17 March 2008



9 410 000 contraband cigarettes detected behind time out shoes in a cargo container imported on a Chinese vessel, 18 July 2008



10 240 000 contraband cigarettes and strategic goods – control units of army aviation aircraft device, microschemes, radiolocation equipment etc.. detected in Grebņeva customs control point, 24 July 2008



4 kilograms of golden and silver jewelry seized in the Riga airport, 25 February 2008

Control activities

In 2008 the mobile units staff of the SRS Customs Criminal Board carried out 486 inspections on border and inland. In the reporting period the total number of PAV drafted was 269. The consideration of the protocols resulted in imposing fines n the amount of 27 210 LVL, in 167 the confiscation of property was applied. The authorities confiscated 1 150 143 cigarettes, 60 litres of alcohol, 4 061 litre of fuel, 993 clothing items, 9 035 units of medicines and other goods.

COMBATING FINANCIAL CRIMES

Combating Financial Crimes

According to the priorities set in the State Revenue Service strategy for 2007 – 2009 on prevention and discovery of crimes in the area of state revenues, the main ongoing tasks to be performed by the SRS Financial Police Department are:

1) to perform the operational activities defined in the law to discover and prevent the crimes in the area of state revenues in the following directions: tax frauds, money laundering, and organised crime activities. As a result we will prevent the ungrounded pre-tax returns from the budget, interrupt or hinder the operation of organised crime groups, prevent money laundering;

2) to perform pre-trial investigation, operational activities, and other measures to discover and prevent the crimes in the activities of civil servants and employees of the State Revenue Service. As a result we will achieve efficient discovery, decrease and prevention of corruption possibilities in the activities of civil servants and employees of the State Revenue Service;

3) to develop and implement the information exchange mechanism between the institutions and divisions of the SRS involved in combating crimes in the area of state revenues. As a result the wholesome and efficient analytical work will be provided in the SRS Financial Police Department.

Investigation of Criminal Procedures

In 2008 a total of 816 criminal procedures were started in the SRS Financial Police Department, 330 of which were started on evading taxation, 22 criminal procedures were started on money laundering, 28 criminal procedures on tax fraud, while the rest on violations during insolvency process, violations of accountancy procedures, and other crimes in the area of state revenues.

Initiated and Received Criminal Procedures

	2008
Total number of initiated and received criminal procedures (criminal cases)	837
Initiated criminal procedures (criminal cases)	816
Including:	
on tax evasion	330
on money laundering	22
on fraud	28
on other crimes	436
Received criminal procedures (criminal cases)	21
Fixed losses in initiated and received criminal procedures (criminal cases) (million lats)	LVL 51 545 792

One of the main indicators characterizing the operation of the SRS Finance Police Department is the number of criminal procedures sent to initiate the prosecution. In 2008 there were 359 criminal procedures sent for criminal prosecution, out of them 71 criminal procedure was on tax evasion, 26 criminal procedures on fraud, 17 criminal procedures on money laundering. The loss caused to the budget within the criminal procedures sent for criminal prosecution amounts to 19 648 594 lats.

Criminal Procedures Sent for Prosecution

	2008
Total number of criminal procedures sent for prosecution (criminal cases)	359
Including:	
on evading taxation	71
on money laundering	17
on fraud	26
on other crimes	245
Fixed losses in the criminal procedures sent to initiate the prosecution (criminal cases) (million lats)	LVL 19 648 594

The Losses to the Budget According to the Priorities in 2008

The losses to the budget in the criminal procedures sent to initiate the prosecution according to Article 195 (money laundering)	LVL 7 501 316,61
The losses to the budget in the criminal procedures sent to initiate the prosecution according to Article 177 (fraud)	LVL 491 820,29
The losses to the budget in the criminal procedures sent to initiate the prosecution according to Article 218 (tax evasion)	LVL 6 544 744,18

Combating Organised Crime

The operative search and investigation of criminal procedures on fraud and "money laundering" resulted in detecting and stopping the activity of 11 criminal groups. These groups involved 636 companies. Mostly those were fictitious companies who actually do not carry out any business activity. In relation to these criminal groups the status of suspects was attached to 34 persons which have been applied a security measure not related to deprivation of liberty. Altogether within the framework of these criminal procedures there were 138 439,32 lats arrested and transferred to the deposit account of the SRS. And the court decided that 757 000 lats were acquired illegally.

As a result of the SRS Finance Police Department activities in 2008 the court decided that 336 632,69 LVL and 1 099 351,33 EUR were acquired illegally, and these amounts were transferred to the state budget.

Found with a ruling of the court to be proceeds from crime, confiscated and transferred to the budget	Ls 336 632,69 EUR 1 099 351,33
Arrested and detained funds	Ls 1 689 341,00 EUR 607 528 USD 197 816
Arrested real estate	20
Organised crime group operation stopped	11

In 2008 the new groups detected by the SRS Finance Police Department involve a large number of natural and legal persons, as well as the groups use more sophisticated schemes, therefore large-scale investigation activities have to be carried out not only in Latvia but also abroad. The most dangerous according to the Finance Police Department are the ones which cause the most damage to the state through violence or corruptive activities. These skilfully organized groups possess huge amount of money the whereabouts of which has to be determined and a decision has to be made to transfer them to the state budget.

Major Criminal Investigations:

1) In February 2008 the Prosecutor's Office for Investigation of Finance and Economic Crimes was sent a criminal procedure for initiating criminal prosecution against Gatis S. on large scale evading taxes and payments imposed together therewith. The criminal procedure was initiated on the basis of the elements of a criminal offence foreseen in Section 218 (2) of the Criminal Law, on the limited liability company "GS Nekustamie īpašumi" tax evasion causing loss to the state budget in the amount of 969 211,60 lats during the period from May 2007 to August 2007.

2) In February 2008 the Specialized Prosecutor's Office for Organized Crime and other Sectors was sent a criminal procedure for initiating criminal prosecution against Māris M. for tax evasion, Bella B. and Vladislavs D. on legalization of proceeds of crime, large-scale tax evasion and supporting commitment of a criminal offence. The above mentioned persons established a fictitious company "Marta-93" through which in the period from September 2003 to August 2004 they evaded taxes in the amount of 1,3 million lats and legalized the proceeds from crime in a Latvian credit institution. The information provided by the credit institutions confirmed that the company was hiding information on the actual amount of cash flow. The company had not declared 5 current accounts which respectively were used for committing criminal activities.

3) In February 2008 the Specialized Prosecutor's Office for Organized Crime and other Sectors was sent a criminal procedure to initiate criminal prosecution against Vitālijs S., Vladimirs P. and Karina P. The criminal procedure was initiated in August 2006 on the basis of criminal offences foreseen in Section 218 (2) and Section 195 (3) of the Criminal Law, namely, the fact that in 2006 the limited liability company "Džonka", limited liability company "Compri" and limited liability company "Doringo" when paying out from the bank accounts large amounts of cash to natural persons, evaded taxes causing the state a loss in the amount of 207 424,92 lats, as well as by changing the money origin, legalized proceeds of crime.

4) In April 2008 Specialized Prosecutor's Office for Organized Crime and other Sectors was sent a criminal procedure to initiate criminal prosecution for tax evasion in a group of persons and legalization of proceeds of crime in the amount of 588 864 lats in the period from October 2003 to May 2006 against seven persons, including one person who according to a court judgement was already found guilty of equal crimes.

5) In May 2008 Specialized Prosecutor's Office for Organized Crime and other Sectors was sent a criminal procedure against a managing director of the limited liability company "Alivuzs" Edmunds A. to initiate criminal procedure. The criminal procedure was initiated in October 2005 on evading taxes and payments imposed together therewith, as well as legalization of proceeds of crime. Altogether the company evaded taxes in the amount of more than 29 thousand lats. The SRS carried out an audit of the limited liability company's "Alivuzs" mandatory state social insurance contributions for the period from J June 2005 to 31 July 2005. Representatives of the company did not present company documents for tax audit; therefore the tax audit was based on assessments and resulted in assessed basic debt of the mandatory state social insurance contributions in the amount of 29 087,49 lats.

6) In August 2008 Specialized Prosecutor's Office for Organized Crime and other Sectors was sent a criminal procedure to initiate criminal prosecution proposing to initiate criminal prosecution against four persons for evading taxes provided for in law and legalization of proceeds of crime. The loss caused to the state budget (basic debt) because of the criminal activity amounts to 4 828 893,58 lats. This is the loss caused to the state budget without fines and late interest payments which altogether make a much bigger amount. The criminal procedure was initiated in July 2005 according to Section 218 (2) on hiding taxable objects and evading taxes committed by limited liability company "Dikus transports". These activities caused a loss to the state budget in the amount of 1 126 390,26 lats. In the course of pre-trial investigation the criminal procedure was additionally classified for legalization of proceeds of crime.

SUPERVISION OF EXCISE GOODS CIRCULATION

Licensing

In 2008 the SRS Excise Goods Department has issued and reregistered 2 889 licenses and certificates for activities with excise goods. As of 31 December 2008 a total of 9 932 licenses and certificates were valid in the field of excise goods circulation, which are 116 licenses and certificates less than in previous year. Based on the data provided in the applications by commercial entities, the decisions were adopted on revocation of 765 licenses for commercial activities with excise goods. In 2008 294 licenses were revoked for violations of normative acts, while in 2007 those were 214 licenses.

In 2008 the SRS Excise Goods Department has ensured the issuance and reregistration of 302 excise duty general guarantee certificates which approximately corresponds to the amount in 2007. In 2008 there were 6 decisions taken on suspension of guarantee certificates and 2 decisions – on their renewal, as well as decisions were taken to annul 5 guarantee certificates for violating normative acts, and on the basis of applications received from traders or guarantors, decisions were taken to annul 19 guarantee certificates.

Review of the Licensing Operations in 2008

		Issued quantity	Number of cancelled licenses		Suspended quantity as of 31.12.2008.	Valid quantity as of 31.12.2008.
			For regulation violations	Based on the application		
MT	Licenses for retail trade of alcoholic beverages	485	149	357	2	4 870
VT	Licenses for wholesale trade of alcoholic beverages	27	6	18	0	171
AM	Licenses for retail trade of beer	9	6	23	0	249
TV	Licenses for wholesale trade of tobacco products	6	2	5	0	40
TM	Licenses for retail trade of tobacco products	338	116	302	2	4 129
BM	Licenses for retail trade of petrol products	7	2	14	0	182
BV	Licenses for wholesale trade of petrol products	2	1	4	0	36
	Special permits (licenses) for operation as the excise goods warehouse keeper	49	8	38	2	224
	Special permits (licenses) for operation as the approved trader	4	3	4	1	15
	Special permits (licenses) for operation as the excise duty payer representative	0	1	0	0	0
	Certificate for granting the status of independent small brewery	3	0	0	0	16

Total	930	294	765	7	9 932
Reregister licenses	1 959				

Supervision

In 2008 officials of the SRS Excise Goods Department have performed 1 068 inspections in the area of excise goods circulation supervision and in 163 cases violations were detected. In 2008 officials of the SRS Excise Goods Department altogether considered and took decisions in 248 cases of administrative violations on violation of regulations concerning the movement of excise goods. These cases were received from other structures (State Police, the SRS Riga Regional Customs Office, the SRS Customs Criminal Board and other). As a result of cases considered and decisions taken the officials imposed fines in the amount of 67 900 lats and confiscated 564,36 litres of alcoholic beverages, 431 980 cigarettes, 19,67 litres of non-alcoholic beverages, 14,75 kilograms of coffee and 15 352 litres of diesel fuel.

In 2008 the officials took 1 699 samples of fuel and carried out their quality check. In four cases the samples did not met the set quality requirements. For the violations detected the officials imposed fines in the amount of 3 300 lats and confiscated 15 352 litres of low quality diesel fuel.

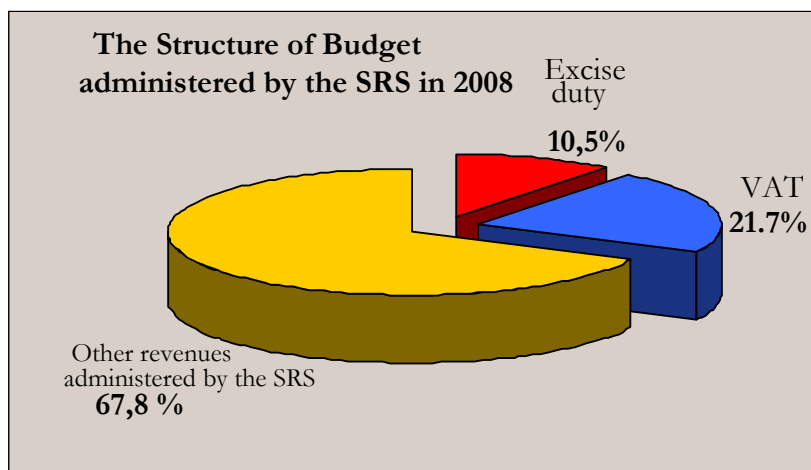
The SRS Excise Goods Department ensures the supervision over the function of the SRS local offices related to the movement of excise goods and petroleum products taxed with excise duty, inland administration, implementation, it performs methodological and consultative functions, as well as carries out common checks by economic operators who are dealing with excise goods. In 2008 there were altogether 4 094 checks made in the area of movement of excise goods which is 422 checks more than in 2007. There were 866 violations of normative acts detected and the decisions taken provided for fines in the amount of 71 720 last and the officials confiscated 18 889 litres of fuel, 1 324 litres of alcoholic beverages and 1 206 103 cigarettes.

The Activities Performed by the SRS Excise Goods Department in the area of Excise Goods Supervision

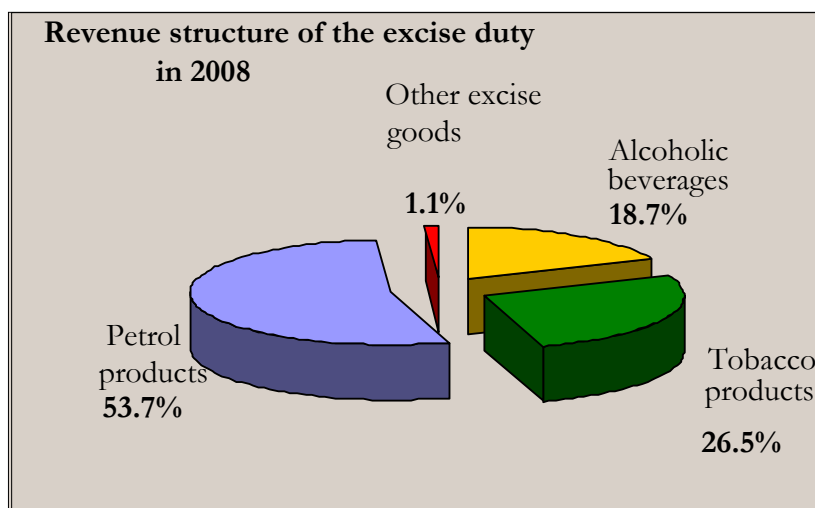
The SRS Excise Goods Department	2007	2008
the number of performed inspections	815	1 068
including:		
in the area of petrol products circulation	602	830
in the area of circulation of alcoholic beverages and tobacco products	213	238
Violations	152	163
including:		
petrol products	25	27
alcoholic beverages and tobacco products	127	139
Adopted decisions	255	248
including by other institutions	52	54
Imposed penalty in lats	80 420	67 900
Confiscated*		
Petrol products in litres	18 073	15 352
Alcohol in litres	6 422	564,36
Tobacco products in units	1 037 764	431 980
Non-alcoholic drinks in litres	0	19,67
Coffee in kilograms	0	14,75
Car	1	0

*including in the cases, which were submitted for review by other institutions

Excise Duty is 10,5 % of the Budget Revenues Administered by the SRS.



Total excise duty revenues to the budget in 2008 were 540,9 million lats, which is 20,7 % more than in 2007.



In the excise duty revenue structure the highest percentage (53,7 %) constitutes revenues from petroleum products – 290,2 million lats which is 8,5 % more than in 2007. The collection on alcoholic beverages in 2008 was 101,2 million lats which is a year-on-year increase of slightly less than one per cent. The highest increase in excise duty revenues was for tobacco products, almost doubling the collection of 2007 – by 93,4 reaching 143,6 million lats.

Issue of Excise Duty Stamps

In 2008 there were 176 304 636 excise duty stamps issued for marking tobacco products which compared to the previous year is 21,8 % (49,2 million) less. In 2008 there was a drop in the number of excise duty stamps issued for marking locally produced cigarettes.

Comparing the number of excise duty stamps issued in 2008 with the respective number in 2007, one must take into account that as of 1 January 2008 economic operators had to make inventory of excise duty stamps in excise warehouses, inventory of remaining cigarettes stocks for wholesale and on 1 February 2008 also for retail. Thus when in 2008 tax rates were increased in all stages of trade, economic operators according to the balance on the day when the tax rates changed had to inventory all the recorded stocks of tobacco products and pay the residual amount to the state budget. Traders did not tend to accumulate wholesale and retail stocks like it

was the case in previous years. And this was the determining factor of reduced numbers of excise duty stamps issued at the end of 2008.

There were 129 804 930 excise duty stamps issued to mark alcoholic beverages which is 6,5 % less than in the previous year. The slight decrease in the number of excise duty stamps issued is explained by fluctuating consumption trends in the alcoholic beverage market.

Report on issued excise duty stamps in 2008

Product Category	Recipients of Stamps	Quantity (units)
Alcoholic beverages	Holders of excise goods warehouses	129 780 819
	Importers	24 111
	Registered traders	0
	Unregistered traders	0
	Representatives of tax payers	0
	Total	129 804 930
Tobacco products	Holders of excise goods warehouses	176 205 354
	Importers	99 282
	Registered traders	0
	Unregistered traders	0
	Representatives of tax payers	0
	Total	176 304 636
Grand total		306 109 566

Improvements

1. Traders are provided the option to file reports on excise goods movement via the SRS EDS reducing the number of documents to be submitted in paper and bringing the filing of these documents to the time and place which is convenient to economic operators thus saving the traders' and state labour resources.

2. There have been changes made in the design of tobacco product (cigarettes) excise duty stamps by introducing extra security elements which increase the protective capacity of the legal market.

3. There has been a draft Cabinet regulation elaborated "Procedure of marking alcoholic beverages and tobacco products with excise duty stamps" which foresees simplification of reports on received and used excise duty stamps for marking alcoholic beverages and tobacco products which have to be filed by traders, and other reliefs.

4. Within the framework of the introduction of the 1st stage of the Excise Movement and Control System (EMCS) the software requirement specification and draft description of the EMCS main module has been elaborated, as well as the design description of the traders' application software has been developed, we also participated in drafting the European Community legislation.

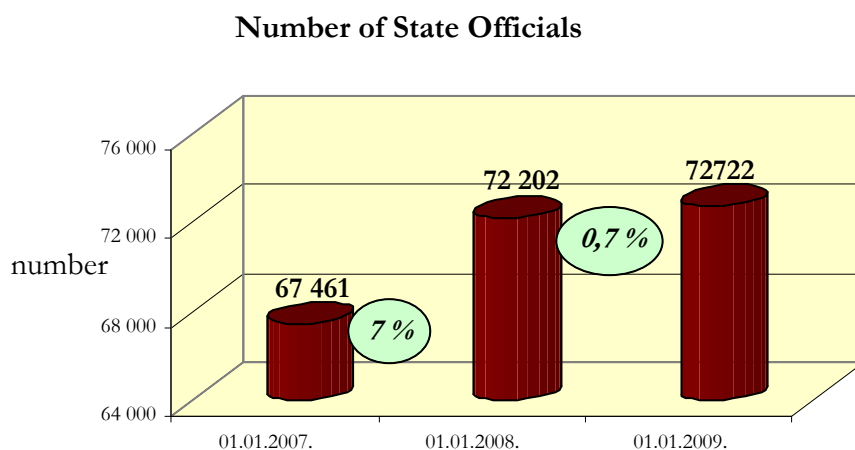
CONTROL OF THE OPERATION OF STATE OFFICIALS

According to the Law: On prevention of the conflict of interest in the operation of state officials (hereinafter –Law) main tasks of the SRS State Officials Data Administration Department are to:

- 1) control implementation of requirements for completing and timely submission of the declarations of state officials;
- 2) to provide registration and keeping of declarations of state officials, as well their publication according to the procedures provided by the normative acts;
- 3) to control implementation of requirements for preparation and submission of lists of state officials and their amendments;
- 4) to take state officials to administrative accountability for violation of the procedure for timely submission, procedure for completing and submission of the declaration of the state official or for providing false information in the declaration
- 5) to make the heads of state and municipal institutions accountable for violation of the procedure for timely submission of lists of state officials and their amendments, or the submission of incomplete lists.

The Number of State Officials and Submitted Declarations

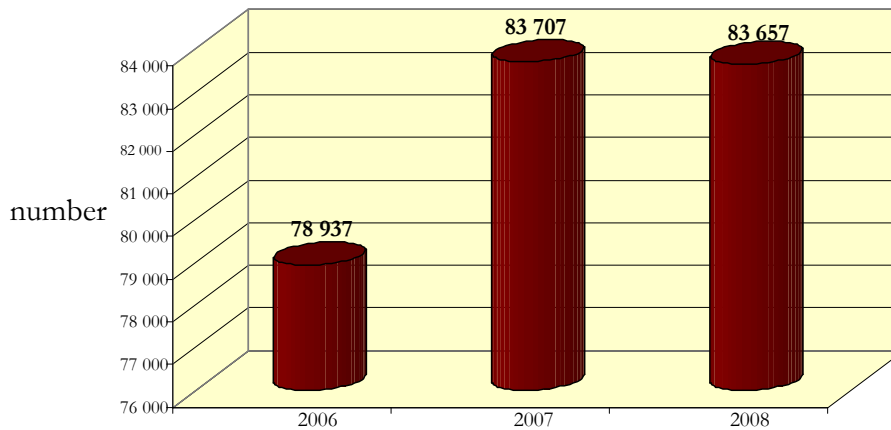
There were 72 722 state officials registered as of 1 January 2009.



Taking a look at the dynamics of the number of state officials over the years, it can be seen that the rapid increase of the previous year has stopped. In 2008 the number of state officials increased by only 520 persons or slightly less than 1 %.

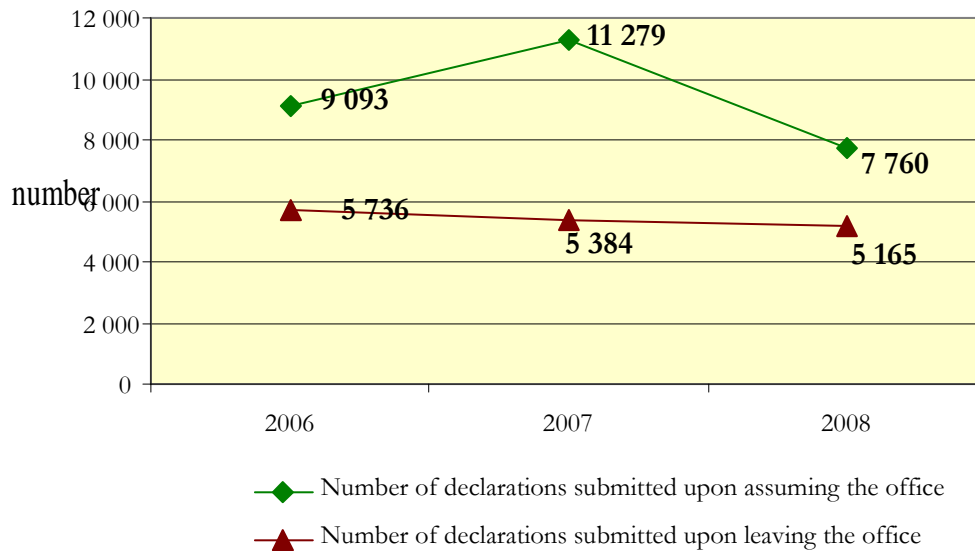
During the year altogether there were 83 657 declarations of state officials submitted to the SRS. Significantly that the year 2008 is the first year when the number of declarations has not increased but remained on the previous year's level.

Number of Declarations Submitted by State Officials



The number of submitted declarations upon assuming the state official's office and leaving the state official's office is shown in the graph.

Number of Declarations Submitted Upon Assuming and Leaving the State Official's Office



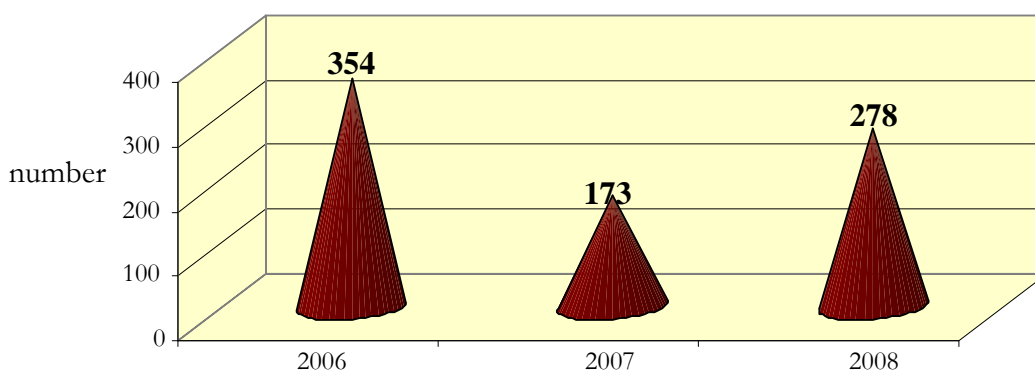
In 2008 upon starting the office there were 7 760 declarations submitted which is 3 519 declarations or 31 % less than in 2007. Yet when leaving the office there were 5 165 declarations submitted which is 219 declarations or 4 % less than in 2007. The dynamics of declarations submitted is an indication of less frequent rotation of state officials in institutions.

Detected Violations and Penalties

In 2008 there were 278 state officials called to administrative liability for non-submission of the declaration of state officials in the set deadline, non-compliance with declaration filling and submitting requirements or providing false information in the declaration. This is 105 persons or 61 % more than in 2007. Out of the total number of state officials punished, 28 or 10 % of those

called to administrative liability were those who submitted their declarations when assuming the office; 55 persons or 20 % - when leaving the state official's office; but the bulk – 195 % or 70 % are the regular submitters of the declarations of state declarations. The increase in the number of persons called to administrative liability for non-compliance with the set submission deadlines is explained by the fact that there was a substantial increase in the number of state officials at the end of the previous year; therefore a large number of state officials had to submit the regular annual declarations for the first time. It may also be assumed that officials intended to submit the declarations via the SRS EDS; however they had not foreseen the time to conclude with the SRS an agreement on the use of the SRS EDS.

**State Officials Called to Administrative Liability
(according to Article 166.²⁷ of the LAVC)**

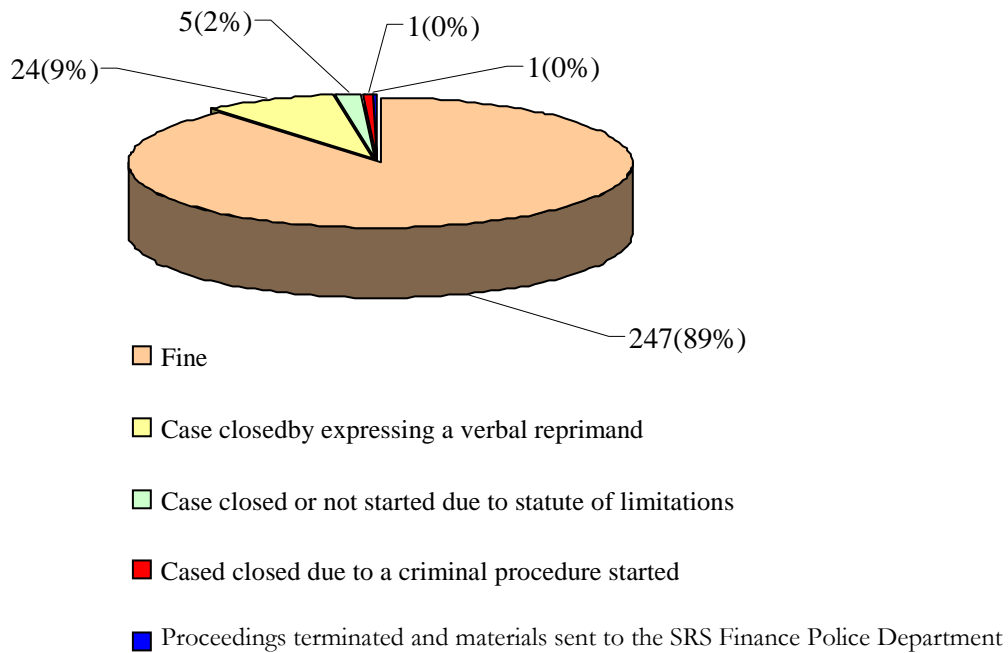


Out of the 278 state officials, which were called to administrative liability:

- 1) 247 state officials had a fine imposed on them;
- 2) 24 state officials have received a verbal reprimand;
- 3) a case on 1 state official was closed due to a criminal investigation being started;
- 4) against 1 state official the proceedings were terminated and materials were sent to the SRS Finance Police Department;
- 5) cases on 5 state officials were terminated or were not started due to statute of limitation.

Fines are the most frequent penalty, namely, 89 % (total 4 490 lats). Comparing to 2007 the total amount of fines has increased by 1 205 lats or 37 %. In 2008 the average fine applied was 18 lats which compared to previous years is a slight reduction (in 2006 – 19 lats, in 2007 – 23 lats).

Punished State Officials According to Article 166.²⁷ of the LAVC



The SRS Finance Police Department has been sent case materials to carry out investigative activities regarding 44 state officials which are 4 state officials or 8 % less than in 2007. Out of the total number there were 26 case materials sent regarding the non-compliance with the set submission deadlines and 18 – on providing false information in the declarations of state officials.

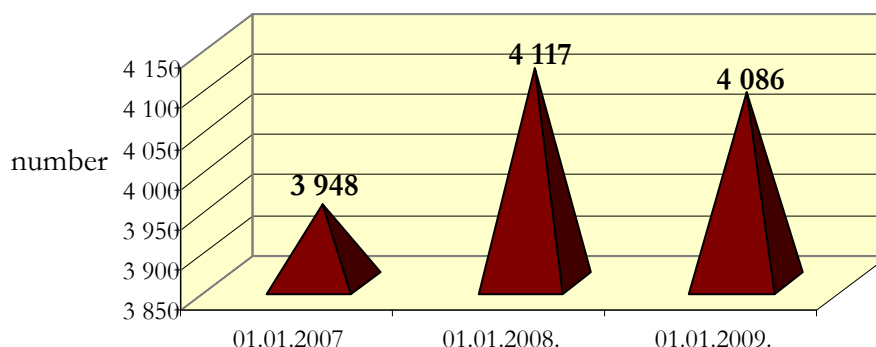
The consideration of these case materials resulted in:

- 1) initiated criminal procedures against state officials on non-submission of the declaration of state officials or providing false information in the declaration of state officials;
- 2) criminal procedure terminated against one person;
- 3) 6 cases where the decision made was to refuse the initiation of criminal procedure;
- 4) 17 case where the SRS made a decision on the application of an administrative penalty by imposing a fine, expressing verbal admonishment or terminating the proceedings because of prescription;
- 5) 4 cases when the prosecutor made a decision to terminate the criminal procedure;
- 6) investigative activities on 4 persons are still in progress.

Control of State and Municipal Institutions

On 1 January there were 4 086 state and municipal institutions registered who submit to the SRS lists of state officials and amendments thereto. Their number compared to the previous has reduced by 31 institution or 0,8 % through merger of independent structural units and institutions. In 2008 the number of lists of state officials is 8 936 which is 1 402 lists or 14 % less than in 2007.

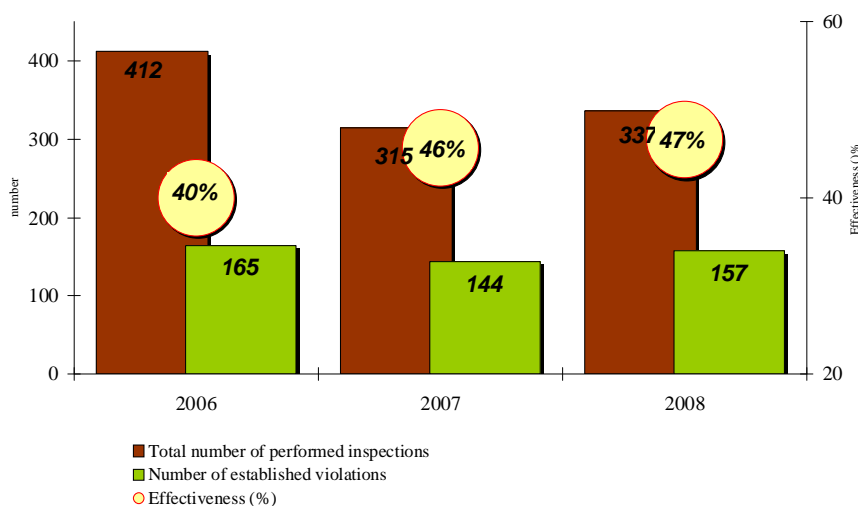
Number of State and Municipal Institutions who Submit Lists of State Officials



Inspections and violations detected

In 2008 there were 337 inspections of lists of state officials submitted by heads of state or municipal institutions and their correspondence of amendments thereto to the set procedure. Compared to 2007 the number of inspections has gone up by 22 inspections or 7 %. In 2008 administrative violations were detected in 157 inspections or 47 % of the total number of inspections. The performance results of 2008 are the highest over the last three years (in 2006 – 40 %, in 2007 – 46 %, in 2008 – 47 %).

The Number of Performed Inspections and Established Violations, their Effectiveness (according to the article 166.³² of the LAVC)



For the violations detected in relation to non-submission of lists of state officials and amendments thereto in the set procedure, as well as incomplete submission of such lists:

- 1) fines were imposed on heads of 38 institutions;
- 2) proceedings terminated against heads of 47 institutions, verbal admonishments were expressed;
- 3) proceedings not initiated:
 - against heads of 45 institutions because of prescription;
 - against heads of 27 institutions because of minor violations.

For the violations detected in inspections carried out in 2008 the fines imposed amounted to 2 070 lats which is 230 lats or 13 % more than in 2007. In 2008 the average amount of fines imposed was 54 lats (in 2006 – 57 lats, in 2007 – 51 lat).

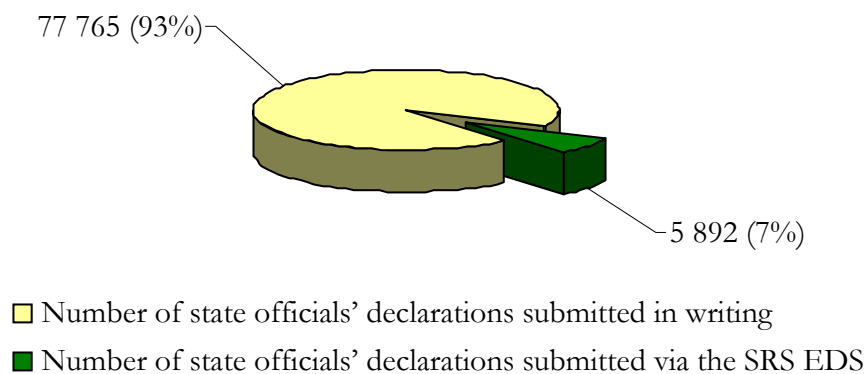
Applying at the same time both, Section 166.²⁷ (on non-submission of declaration of state official in the set deadline) and Section 166.³² of the LAVC (non-submission of declaration of state officials in the set procedure) there was one state official called to administrative liability imposing a fine in the amount of 50 lats.

In 2008 6 state officials appealed against the decisions taken according to Section 166.²⁷ (on non-submission of declaration of state officials in the set deadline, providing false information in the declaration, and non-compliance to the filling in procedure) and Section 166.³² (on non-submission of amendments to the lists of state officials in the set procedure). After the appeal procedure the SRS Director General left 50 % of the decisions taken in force.

Use of EDS for Submission of State Officials' Declarations and State Officials' Lists

In 2008 there were 5 892 declarations of state officials submitted using the SRS EDS or 7 % of the total number of declarations submitted which is 4 029 declarations or three times more than in 2007.

Use of the SRS EDS in Submission of the State Official's Declarations



Out of the total number of declarations submitted 54 % or 3 195 declarations were submitted by the SRS staff.

Lists of state officials electronically are submitted by 191 state or municipal institution or 5 % of the total number of institutions which is 127 institutions or three times more than in 2007. In total the electronic filing rate was 747 lists or 8 % of the total number of lists filed.

Consultation, information and education of state officials

The SRS state officials data administration structural units are giving a significant contribution in informing state officials, as well as heads of state and municipal institutions on the issues within the competence of the SRS concerning the implementation of the Law. In 2008 the total number of consultations provided to state officials, heads of institutions and other stake holders was 72 885 (4 522 electronically, 20 605 by phone, 47 758 verbal) which is 7 588 consultations or 12 % more than in 2007.

To ensure quality and common approach to client service and consultation, as of 2008 in the State Officials Data Administration Department there has been a common info line

introduced (phone number 1898). By using this info line in 2008 there were 1 500 calls received, 1 000 consultations were provided on declarations of state officials, as well as on filling in and submission of lists of state officials and amendments thereto; in 500 cases other types of consultation were provided.

Altogether the SRS organized 849 informative seminars, trainings or consultations in institutions on the issues related to the implementation of the Law and promoting the SRS EDS. The SRS provided 17 publications or other types of information in newspapers, in 146 cases there was a work with journalists, three times the information was provided on TV and four times – on the radio, information reminding to submit the regular declaration of state officials for the year 2007 by the 1 April 2008 was published also on the SRS website.

In 2008 the SRS designed, printed and distributed booklets "Submission of Declaration of State Officials", "Obligations of Head of State or Municipal Institution in Complying with the Law "On Prevention of Conflict of Interest in Activities of State Officials" and "Submission of Declaration of State Officials via the State Revenue Service Electronic Declaration System".

The organized consultative events are meant to explain the requirements of the Law and liability for non-compliance. Special attention is paid to the option provided by the SRS to submit declaration of state officials electronically via the SRS EDS by signing it electronically with electronic signature. Thus continuing the work started in the previous years the emphasis is put exactly on training state officials.

To facilitate electronic submission of lists of state officials and declarations via the SRS EDS and inform on the most common inaccuracies upon filling in declarations, consultations and practical assistance were provided to the officials of the Customs Audit Division of the National Customs Board, Saeima (parliament) members of the following fractions "Tautas partija" "Latvijas pirmā partija" and "Latvijas ceļš", "Zaļo un zemnieku savienība", as well as the SRS provided information and demonstrated options of the use of the EDS DEMO version on how to submit the declaration of state officials via the SRS EDS to state officials of the Chancery of the President of Latvia and Rural Support Service.

In 2008 there were 5 seminars organized within the SRS competence (in Saldus, Madona, Talsi, Rēzekne, Rīga) for heads of state and municipal institutions on the application of norms of the Law, as well as on the options and advantages of the use of the SRS EDS in filing lists of state officials and demonstrated a short film on how to prepare and submit lists of state officials practically. The seminars were also attended by representatives of the Corruption Prevention and Combating Bureau (KNAB) to explain the Law norms in relation to prevention of conflict of interest in state and municipal institutions, as well as to provide information on the professional ethics of state officials.

International cooperation

In 2008 the State Officials Data Administration Department was attended by representatives from Estonia and Republic of Kirgizstan. Estonian representatives were given an insight into the SRS State Officials Information System (VADIS) and options to submit declarations of state officials via EDS; and delegation from Republic of Kirgizstan was introduced with experience and the work done by the SRS in acceptance and verification of declarations of state officials.

PRE-COURT HEARING OF DISPUTES

As a result of considering pre-court disputes in 2008 the SRS Director General took 1074 decisions on considering taxpayer complaints, out of them 490 decisions were on tax dispute cases (in 2007 – 541 decision), 475 decisions on cases of administrative violations (in 2007 – 541 decision), 109 decisions on cases of other disputes (on refusal to register in the Register of VAT Applicable Persons, on deregistration from the Register, on prolongation of tax payment deadlines etc.)

As a result of considering taxpayer applications in 2008 the SRS Director General took 125 decisions on cases of fine reduction (in 2007 – 678 decisions). At the same time in 2008 there were 508 cases when the decision in fine reduction cases according to the authorization of the SRS Director General was made by directors of the SRS local offices.

In 2008 according to Section 41 of the law "On Taxes and Fees" the SRS Director General concluded 30 settlement agreements (in 2007 - 73 agreement).

The Decisions Adopted as a result of Hearing Tax Disputes Cases, number

	2007	2008
Left unadjusted, including	429	400
at the same time reducing fines	23	3
at the same time not reducing fines	24	6
at the same time additionally assessed	5	13
Cancelled	33	28
Cancelled partially, including	48	45
at the same time reducing fines	6	2
at the same time additionally assessed	3	6
A new decision to be adopted/review the complaint	9	-
The decision is adopted not to review the complaint	22	17
Total	541	490

According to the data provided in 2008 in decisions taken by the SRS Director General in tax disputes decisions made by directors of the SRS local offices in 81,63 % of cases were left unadjusted, in 2007 – in 79,3 % of cases; cancelled – in 2007 – 6,1 %, in 2008 – 5,71 %, cancelled partially – in 2007 – 8,87 %, in 2008 – 9,18 %.

One of the main reasons for cancelling the decisions made in tax dispute cases by directors of the SRS local offices in 2007 was incorrect application of normative acts (27 cases), as well as lack of sufficient evidence to make respective conclusions (29 cases). Yet in 2008 the main reason for cancelling the decisions made in tax dispute cases by directors of the SRS local offices is incorrect application of normative acts (30 cases).

In 2008 the SRS received taxpayer complaints regarding tax-related decisions taken by directors of the SRS local offices and according to which there were additional 45 467 507,33 lats assessed to be paid to the state budget, losses were reduced by 1 785 434,13 lats, losses were increased by 35 630,26 lats, the corporate income tax was reduced by 3 069,45 lats and the VAT was reduced by 241 424,05 lats, and the income declared by natural persons was reduced by 9 943 457,05; the refund of personal income tax was refused in the amount of 1 195 359,77 lats, the VAT refund was refused in the amount of 6 630 898,75 lats, and the excise duty refund was refused in the amount of 18 858,39 lats.

Taxpayers appealed the additionally assessed payments to the budget in the amount of 41 308 376,82 (90,85 % of the amount assessed in the appealed decisions), non-refund of the personal income tax in the amount of 1 194 881,63 lats (99,96 % of the amount refused to be refunded), and non-refund of VAT and excise duty excess credits was appealed by taxpayers in full amount.

Considering case materials decisions were made to cancel the payments in the amount of 3 431 607,28 (8,31 % of the appealed amount) set in the decisions made by directors of the SRS

local offices. At the same time in the procedure of appeal there were additional 916 792,86 lats set to be paid into the budget.

In 2008 the mostly appealed payments which were additionally set to be paid in the budget were the personal income tax, corporate income tax and VAT payments. The appealed amount of these taxes respectively is 39,34 % (8 608 827,83 lats), 45,83 % (10 029 823,79 lats) and 12,32 % (2 696 329,67 lats) of the total amount of payments appealed.

Fine reduction according to Section 33.3 of "Taxes and Fees", decisions made after case consideration, number

	2007	2008
Decisions of the SRS Director General		
To reduce fine	597	107
Not to reduce fine	81	18
Total	678	125
Decisions of the SRS local offices		
To reduce fine	-	471
Not to reduce fine	-	37
Total	-	508
SRS total		739

According to the data provided in fine reduction cases considered by the SRS Director General in 2007 there were 597 cases (80,05 %) when the decision made was to reduce the fines assessed for taxpayers, in 81 case (11,95 %) the decision was made not to reduce the fines assessed; and in 2008 there were 107 cases (85,6 %) when the decision was made to reduce the fines assessed, and 18 cases (14,4 %) when the decision was made not to reduce the fines assessed.

As of beginning of 2008 the right to reduce fines was delegated also to directors of the SRS local offices, thus also in the SRS local offices 508 decisions in cases of reducing the assessed fines after inspections were made, out of them in 471 (92,72 %) case the decision was made to reduce the assessed fines to be paid into the budget, and in 37 cases (7,28) the decision was made to not to reduce the fines assessed.

Together with requests to reduce fines (11 cases) considered within the framework of tax dispute cases in 2008 the SRS Director General considered 136 taxpayer requests to reduce the fines assessed as a result of inspections and made decisions to reduce the additionally assessed fines to be paid into the budget according to Section 33.3 of the law "On Taxes and Fees" or Clause 91 of the transition regulation in 112 cases in the amount of 223 123,13 lats (in 2007 – 626 cases in the amount of 2 416 083,5 lats); and in 24 cases taxpayer requests to reduce the assessed fines after inspections to be paid into the budget were rejected.

In 2008 the SRS Director General according to Section 41 of the law "On Taxes and Fees" concluded 30 settlement agreements (in 2007 there were 73 settlement agreements concluded) with taxpayers by cancelling the additional fines assessed as a result of inspections to be paid into the budget in the amount of 151 826,06 lats.

In 2008 the SRS received 109 taxpayer complaints concerning the decisions made by directors of the SRS local offices relating to other issues, out of them 62 appeals were against decisions to exclude from the Register of VAT Taxable Persons, 5 decisions - on refusal to register in the Register of VAT Taxable Persons, 1 decision – on refusal to register as a payer of fixed personal income tax, 37 decisions – on refusal to grant a prolongation of tax payment deadlines, 2 decisions – on suspending business activity, 1 decision – on refusal to offset amounts paid by the taxpayer against other taxpayer, and 1 decision - on refusal to accept a tax return.

In 2008 in the decisions made by the SRS Director General in other tax disputes, decisions made by directors of the SRS local offices were left unchanged in 66,36 % of cases, cancelled – in 21,5 % of cases, cancelled and assigned to be considered repeatedly – in 3,74 % of cases? Left without consideration – 8,41 % of cases.

The Adopted Decisions as a result of Hearing the Administrative Violations Cases, number

	2007	2008
Left unchanged	271	313
Cancelled, the case sent for new hearing	50	46
Cancelled, the case closed	28	40
Appeal left without hearing	5	9
Amended the fine amount	13	32
Cancelled by expressing verbal reprimand	63	35
Assign status of third party	2	-
Total	432	475

According to the data provided the decisions of authorities of the SRS local offices on administrative violations cases which were appealed to the SRS Director General, in 2007 were left unchanged in 62,73 % of cases, in 2008 - in 65,89 % of cases; cancelled by sending the case for new consideration - in 2007 - in 11,57 % of cases, in 2008 – 9,68 cases, cancelled by terminating the cases – in 2007 – in 6,48 % of cases, in 2008 – 8,42 % of cases.

In 2008 the SRS Director General in 35 decisions (7,37 % of all the cases) when considering the case materials terminated the proceedings in cases of minor administrative violations by expressing to the violators verbal reprimand thus cancelling fine imposed according the decisions made by the SRS officials.

In 2008 according to the 475 decisions made by authorities of the SRS local offices in administrative violations cases which were appealed to the SRS Director General the fines imposed amounted to 139 571,34 lats.

As a result of the SRS Director General considering particular cases in 313 cases decisions taken by the SRS local offices' officials in administrative violations cases were left unchanged (the violators were imposed fines in the amount of 111 668,28 lats), in 46 cases – the decisions were cancelled and the cases were sent for new consideration (the fines imposed amounted to 11 041,06 lats) in 40 cases the decisions were cancelled and the administrative violation cases was terminated (the fines imposed amounted to 3 397 lats), 9 appeals were left without consideration (the fines imposed amounted to 1 061 lats), in 32 cases the amount of fines was amended (the fines imposed in the amount of 6 563 lats was reduced to 2 420 lats), in 35 decisions were cancelled at the same time expressing verbal reprimand (the fines imposed amounted to 5 638 lats).

STRATEGIC DEVELOPMENT

The SRS Development strategy for 2007 – 2009 was confirmed on 6 March 2007. At the same time the SRS developed an Action plan to introduce the Strategy containing clear tasks and particular measures aimed at achieving strategic objectives and the SRS visions of a client-oriented and competitive service. Since then 5 reports on the Strategy implementation analysis were drafted.

To perform the analysis of the implementation of the Action plan of the Strategy and at the same time facilitate a more effective use of the SRS resources which is one of the SRS priorities, the SRS IT Department in cooperation with an outsourced supplier "Exigen Services Latvia" developed an automated system to monitor and analyze the SRS Development Strategy Action plan.

The SRS Development Strategy and its implementation plan is an up-to-date, flexible and viable management mechanism adjusted to (supplemented and updated) the changing situation in the areas of the SRS activity. This is of even greater importance at the time when there is an ongoing work on the design of the new SRS structure, improvement and optimization of the current work organization by centralizing functions which, no doubt, will have an effect on the contents of the Action plan

The basic data of the Action plan analysis for 2008 altogether consist of 590 unique performance indicators. Out of these analysis uses or evaluates only those for which both, plan and implementation are indicated – 387 indicators. The statistics of the number of indicators compared to 2007:

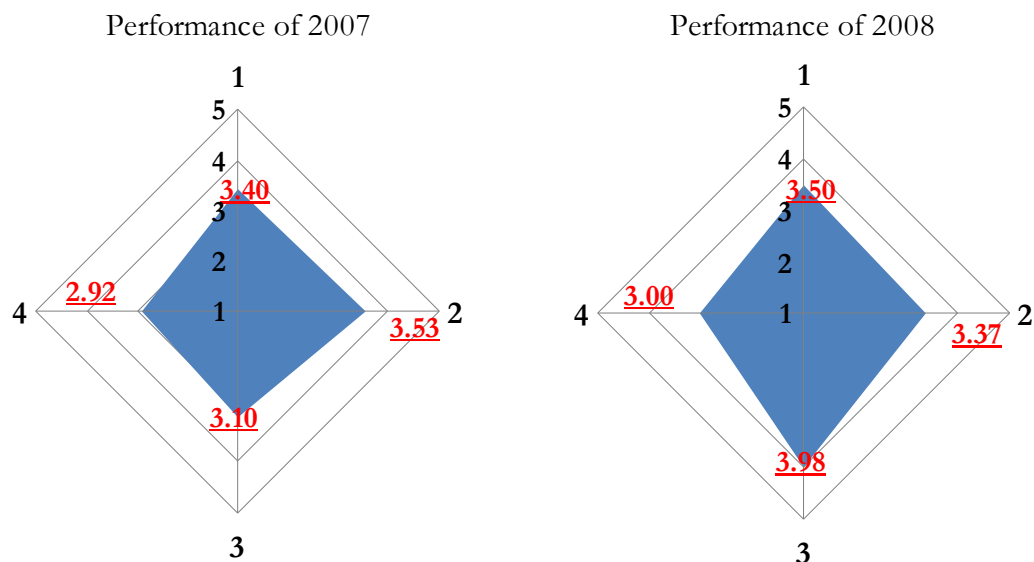
	2007	2008	Deviation
Number of unique performance indicators	633	590	↓ 6,8 %
Number of evaluated performance indicators	303	387	↑ 27,4 %
Assessment credibility	52 %	68 %	↑ 16 %

The overall assessment of the vision in 2008 compared to 2007 has gone up and is 3,49 out of 5 (or 70 %) with data credibility of 68 %. The overall assessment of the vision in 2007 was 3,23 (or 65 %) with data credibility of 52 %.

Comparative performance indicators on 2007 and 2008

Objectives of the Development Strategy:

1. Voluntary compliance with tax and customs liabilities.
2. Favourable environment for fair business.
3. The highest security level on the external border of the EU.
4. Efficient management of internal processes.



The overall assessment in 2008 ranges from 3 to 4 which indicates that reaching objectives only slightly lags behind the planned.

Compared to the previous period the average objective assessment in 2009 generally has improved, however the assessment of the second objective – ensuring favourable environment for fair business – has gone down.

SRS client satisfaction study of 2008

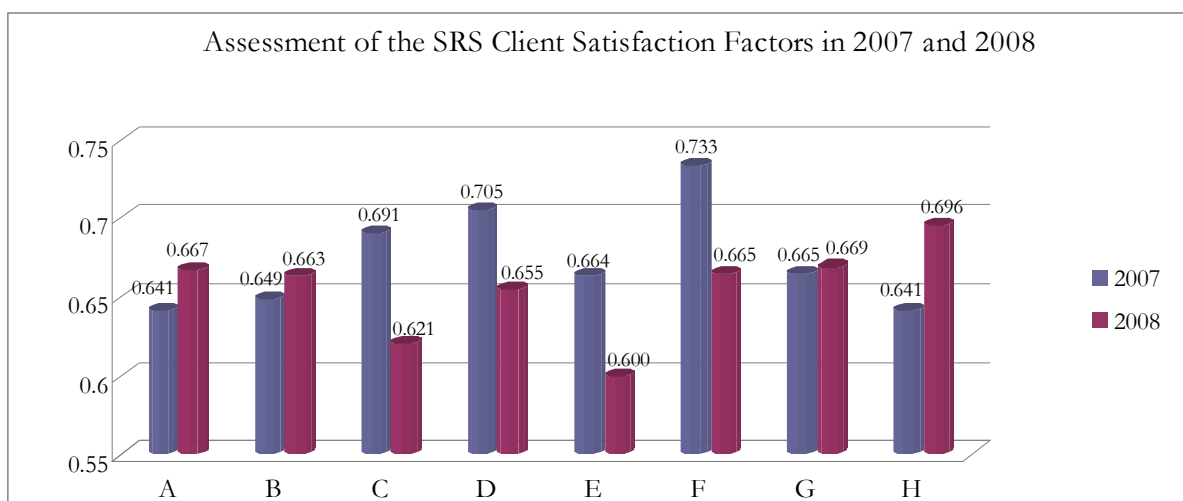
In 2008 the SRS continued the work on the SRS client satisfaction study started in the previous year. The survey used quantity and quality methods thus ensuring a proper study performance and credibility of data collected. The survey covered opinions of clients of tax administration and customs, as well as state officials on different client service-related issues. The SRS clients were surveyed via Internet and in the SRS client service halls and customs control points (CCP). In the course of the study the SRS processed 3 417 valid questionnaires, 59 % more than in 2007.

In 2008 the most satisfied with the SRS activity were the self-employed and state companies but the least satisfied – accounting consulting companies. In 2007 consultations provided by the SRS were one of the most highly evaluated client satisfaction factors but in 2008 they represented one of the lowest evaluated factors. The most critical objections to this factor were received concerning the complexity of normative acts, unsatisfactory waiting time for consultations, difficulties in calling the info line, as well as quality (distinct interpretation of normative acts in different local offices, incorrect consultations, and complicated explanation).

Compared to the study of 2007, there has been a significant rise in the evaluation of the speed of general waiting time and service procedure which is explained by the fact that even more clients are using the SRS EDS and e-environment in communicating the SRS. In general this year the SRS clients are more satisfied with the e-environment. The highest evaluation was

for the availability of the SRS EDS service but the lowest evaluation was given to the design and comfort in use of the SRS EDS.

The SRS client satisfaction ratio in 2008 is 0,649 (in a scale from 1 to 0 where 1 is the absolute client satisfaction value, 0 – the absolute client dissatisfaction value). Compared to 2007 the SRS client satisfaction ratio has dropped by 3,7 % (from 0,674 to 0,649). The client satisfaction level has lowered in factor C - "Consultations", D - "Service Quality", E - "Client Service Procedure", F - "Competence of the SRS Staff". Yet in factor A - "Client Service (client-oriented approach)", B - "Client Information and Education Events", G - "Assessment of the E-environment" and H – "Technical Supply" the client satisfaction level has gone up.



Indicators of client satisfaction:

- A. Client Service (client-oriented approach).
- B. Client Information and Education Events.
- C. Consultations.
- D. Service Quality.
- E. Client Service Procedure (speed, complexity of compliance).
- F. Competence of the SRS Staff.
- G. Assessment of the E-environment.
- H. Technical Supply (in client service halls and customs control points).

The SRS client satisfaction study of 2008 is published on the Latvian version of the SRS website www.vid.gov.lv in the Section website www.vid.gov.lv in the Section Par mums → Pētījumi.

Activities to improve client service

To get a sound focus on one of the main SRS priorities – improving client service, after the client satisfaction study the SRS in a structured way summarized problems and weaknesses of the SRS client service and defined 15 measures to be taken to solve the problems.

The most significant of them are:

- 1) to ensure a common information of the SRS clients on current events of the SRS and changes in normative acts by e-mail;
- 2) to structure informative materials by client target groups so that each respective client group receives information intended only for them;
- 3) to introduce new communication channels to cooperate with clients – to offer a possibility to receive an sms;

- 4) to develop informative materials in Russian and English (booklets, information in client service halls and the SRS website);
- 5) when developing the functional standard of the SRS client servicing halls, to take into account client needs in relation to the work organization, situation of client servicing halls, as well as convenience;
- 6) in the future the SRS must pay closer attention to cooperation with mass media – provide objective information on the SRS activity and current issues.

Implementing these activities will facilitate service quality and service culture according to client needs and will raise client satisfaction level. All the activities are closely related to the results of the SRS client satisfaction survey of 2008 and aimed at solving client servicing problems identified in the survey, as well as they are grounded in the objectives and tasks in the area of client servicing defined in the SRS Development Strategy. Such a structured and close relation will promote concentrated and sound client servicing by creating a common SRS image and visual and functional standard of the SRS client servicing halls.

INTERNATIONAL COOPERATION

The international cooperation has become an integral part of the SRS everyday life. With the increasing economic activities influenced by the globalization processes the need to attract increasingly more attention to the international cooperation aspects has also increased.

Tax administration

According to the normative acts of the European Union, including on the information exchange in the areas of direct and indirect taxes, the SRS is providing administrative cooperation with other Member States of the European Union on a regular basis.

Within the framework of international agreements, the international information exchange is ensured continuously in the area of direct taxes by performing an active information exchange, as well as providing the assistance in tax collection. In 2008 the cooperation was performed in the framework of 45 conventions and the cooperation in 2009 is planned already in 48 conventions On Double Taxation and Tax Evasion Prevention. Latvia has adopted such conventions and they are in force with Norway, Sweden, Estonia, Denmark, Finland, Poland, Lithuania, Canada, Czech Republic, Netherlands, Iceland, Ukraine, Belarus, United Kingdom, China, Germany, Uzbekistan, Ireland, 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, Luxemburg, Serbia, and Montenegro, Austria and Italy and Macedonia and with the 2009 the other three conventions are in force – with Albania, Italy and Kirghizia.

According to these conventions the contracts were signed On Mutual Administrative Assistance and Automatic Information Exchange with tax administrations of Belgium, Czech Republic, Denmark, Estonia, Finland, Germany, Lithuania, Netherlands, Uzbekistan, Sweden.

Within the framework of agreements simultaneous audits are organized and conducted. There are 14 more conventions at different conclusion stages; and as of 1 May 2004 operative exchange of information and coordination must be made with all the EU member States (as of 2007 also with Bulgaria and Romania) according to EU laws – 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; Council Directive 79/1070/EEC of 6 December 1979 amending Directive 77/799/EEC concerning mutual assistance by the competent authorities of the Member States in the field of direct taxation, as well as Council Directive 2003/48/EC of 3 June 2008 (Savings Directive).

In 2008 there was an information exchange in the field of direct taxation with other EU Member States and States and states with which agreements had been concluded, in 412 cases there was a correspondence with the SRS local offices and in 261 case – correspondence with credit institutions.

In 2008 the SRS ensured circulation of automatic information in the field of direct taxes which was sent electronically, or to other technical information carriers. Automatic information in the amount of 17 671 records was sent to the Czech Republic, Germany, Denmark, Estonia, Finland, Hungary, Lithuania, the Netherlands, Norway, Poland, Sweden and the USA.

The SRS ensured processing and analysis of received automatic information, and it has been recognized in the amount of 10 604 records on magnetic information carriers from Sweden, Norway, Finland, Denmark, the Czech Republic, Poland, the USA, Lithuania, United Kingdom according to Council Directive 77/799/EEC; the SRS has ensured manual processing of income which Latvian taxpayers have gained abroad, that is, the SRS local offices' data bases contain 15 303 records. The SRS has also processed, translated and sent information to tax administrations of the EU Member States and respective territories according to the Savings Directive in the amount of 3 657 records on non-resident savings income in Latvia in 2007 to 26

EU Member States and dependant and related territories, as well as the SRS local offices' data bases contain information on savings income from abroad – 2 558 manually recognized records which were received from the above mentioned tax administrations. Receiving information enhances the possibility to control possibly undeclared income.

In 2008 a regular information exchange in the field of indirect taxes was provided with other European Union Member States according to the Council Regulation (EC) No. 2073/2004 of 16 November 2004 on administrative cooperation in the field of excise duties and the 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 European Union tax information exchange systems:

1) *System of exchange of excise data (SEED)* — Excise goods warehouse, holders of warehouses, and approved trader information system;

2) *VAT Information Exchange System (VIES)* — The value added tax information exchange system, which enables the European Union Member States to exchange information on conformity of VAT registration numbers, changes in VAT registers, as well as transactions performed by the companies in the territory of European Union;

3) E-services system — the declaration system for services provided electronically by persons not registered in the European Union.

In 2008 the automatic information exchange with the European Union Member States was performed on delivery of new vehicles to tax-exempt persons, on VAT returns, on VAT registration numbers assigned in other European Union Member States, potentially fictitious companies and other types of spontaneous information exchange.

In 2008 a regular information exchange was provided with Lithuania and Estonia and mutual transactions performed by the taxpayers (within the framework of triangular contract).

Providing the control of transactions performed on the territory of European Union, in 2008 a total of 1 514 information requests were sent to European Union Member States and 580 information requests from European Union Member States were received in the field of indirect taxes.

The largest flow of documents is for standard administrative cooperation procedures using the common electronic forms of European Union Member States. The number of aforementioned documents has a tendency to increase, which both indicates the activities of Latvian commercial entities by performing transactions with commercial entities of other European Union Member States and shows the application usefulness of the aforementioned procedures in the tax administration work.

Facilitating uniform application of EU laws and acquiring experience of tax administrations of other states, in 2008 the SRS continued active participation in the work of international organizations and institutions (European Commission program *Fiscalis 2013*, *Intra-European Organization of Tax Administrations (IOTA)*, *Organisation for Economic Cooperation and Development (OECD)* – seminars, working groups, exchange visits, as well as the work of committees of Council of Europe and European Commission (EC).

In 2008 the participation was guaranteed in high level international events:

1) In the meeting of management of tax administrations of the Baltic States in Liškiava, Lithuania and meeting of heads of tax administrations in Helsingborg, Sweden organized within the framework of the Council of the Baltic Sea States;

2) 12th IOTA General Assembly “Joined up Government: more efficiency and reducing the administrative burden through cooperation between other governmental bodies”, Slovenia;

3) 13th meeting of the Coordination Council of heads of tax administrations of the Commonwealth of Independent States in Baku, Azerbaijan;

4) 12th annual OECD Global forum on tax treaties in Paris, France;

5) annual meeting of heads of tax administrations of the EU Member States organized by the European Commission in Madrid, Spain.

To facilitate closer cooperation with tax administrations of other states in 2008 the SRS hosted the following exchange visits of other tax administrations:

- 1) visit of Estonian and Lithuanian tax administration representatives on administrative cooperation issues;
- 2) visit of EC representatives on "Introduction of the EMCS Project";
- 3) visit of delegation of the Czech Republic tax administration "On Application of the Concluded Memorandum of Understanding on Automatic Information Exchange";
- 4) visit of Slovak tax administration representatives organized within the framework of "Fiscalis-2013" program;
- 5) visit of representatives of the Tax Committee of the Ministry of Finance of the Republic of Kazakhstan;
- 6) visit of representatives of state administration of the Republic of Kyrgyzstan;

On 11-14 November 2008 the SRS organized an IOTA case study workshop "Application of Tax Treaties" in which participated 40 people from 23 countries.

Customs

In the period from 1 July 2007 to 30 June 2008 Latvia was the presiding country of the Council of the Baltic Sea States (CBSS), and in the first half of 2008 in Riga took place several meetings of subgroups of the taskforce on cooperation of customs services and border crossing issues. On 30 May in Riga there was the third meeting of the above mentioned taskforce with participants from Latvian, Lithuanian, Polish, Finnish, Swedish, Norwegian and Russian customs administrations, as well as from the CBSS Secretariat and the EC; during this meeting the parties confirmed the taskforce regulation, as well as the idea of resumption of the project on border crossing time measurements. On 1 July 2008 the CBSS presidency was passed on to Denmark.

Latvian customs authorities on a regular basis participate in the EC working groups, international events, seminars, project groups and meetings organized by the EC program "Customs 2013" and international institutions where the interests of Latvia in customs matters are protected.

Latvian customs service is represented in 39 permanent working groups of the EC in customs matters, and in 2008 the specialized attaché by participating in 73 official meetings represented the Latvian customs in the EU institutions, the World Customs Organization, as well as cooperated with representatives of customs services of other EU Member States.

Altogether in 2008 502 SRS representatives participated in 337 customs-related events abroad.

In 2008 in 18 working visits organized within the framework of "Customs 2013" participated 53 representatives of the Latvian customs service and they visited customs structures in Finland, Germany, Sweden, Lithuania, the Czech Republic, Hungary, Portugal, Denmark, the Netherlands, Slovakia. In 2008 within the framework of "Customs 2013" the Latvian customs service hosted 9 working visits of 17 colleagues from customs services of the Czech Republic, Finland, the Netherlands, Germany, Bulgaria, Croatia, Italy and Portugal.

The SRS successfully completed a "Customs 2013" Customs Benchmarking project "Audit of Traditional Own Resources and Common Agricultural Policy" which was implemented together with Estonian and Lithuanian customs and tax administrations.

In June in relation to the meeting of the International Trade Committee (ITC) of the European Parliament in Lithuania and Latvia ITC representatives were given an opportunity to visit the border control point "Terehova".

In 2008 the Latvian customs service continued active participation in technical assistance missions in the status of a donor state in the European Union Border Assistance Mission (EUBAM) on the border of Moldova and Ukraine, as well as the Technical Assistance for Tax

and Customs Administrations (TACTA) program in Montenegro. In December within the framework of the project of Regional trade and customs of the USAID fund the SRS customs service hosted the exchange visit of Tadzhikistan customs delegation to the Latvian customs structures.

The Latvian customs service continued cooperation with customs services of the Commonwealth of Independent States, mainly customs services of the Russian Federation and the Republic of Belarus.

Strategic and conceptual issues are discussed in meetings of top officials of Latvian and Russian customs in Riga and Moscow; and expert level meetings are held at the border control points on the border of the states.

In June 2008 in Moscow officials signed a protocol of the government of the Republic of Latvia and the government of the Russian Federation on prolongation of the agreement of 2 June 1993 on customs border passing points.

Latvian customs is also actively taking part in the Latvian-Russian Intergovernmental Commission's Transport taskforce focusing on and solving issues related to cooperation of the services in the field of transport.

On 28 July 2008 his office in Moscow started the specialised attaché in customs matters in Russia. One of the main tasks of the customs attaché is to participate in intergovernmental committees, working groups, meetings and conferences, and top level meetings on customs issues organized by the Russian Federation. In these meetings the customs attaché is authorised on the basis of instructions prepared by the Ministry of Finance and its subsidiary institutions to express the opinion of Latvia.

There was an even more active cooperation with Belarus through strengthening the activity of the intergovernmental committee of the Republic of Latvia and the Republic of Belarus on economic, scientific and technical cooperation.

Also in 2008 Latvian customs continued participation in sports activities organized by the European Customs Sports Association and customs services of European countries. Latvian customs staff successfully participated in Košice Peace Marathon in Slovakia, halfmarathon in Brussels, Belgium, as well as in a friendship hockey game in Finland.

International scientific and practical conference "Further Development of Tax Administration and Customs in the Environment of Single Market of European Communities"

When celebrating the 15th anniversary of the State Revenue Service on 26 November 2008 the SRS organized an international scientific and practical conference "Further Development of Tax Administration and Customs in the Environment of Single Market of European Communities". The Conference was attended by representatives from Lithuanian, Estonian, Swedish and Finnish tax and customs administrations. In the Conference to provide an insight into the work done by the SRS and evaluate the developments over 15 years in the area of tax and customs administration as well as combating smuggling and finance crimes and also the future perspectives, presentations were delivered by senior SRS officials. In the Conference their reports delivered also foreign experts: the Head of the Government Consultancy Department of the International Bureau of Fiscal Documentation Mr Victor Van Kommer (the Netherlands), a professor from the University of Canberra Mr David Widdowson (Australia), the Head of Customs Unit of the Ministry of Finance of Finland Mr Sakari Alasalmi and others. The guests of honour for the Conference were the World Customs Organization's Secretary General Elect. Mr Kunio Mikuriya and the President of the



Intra-European Organization of Tax Administrations Mr Mats Sjostrand. The Conference was opened by the President of Latvia Mr Valdis Zatlers.

BUDGET INFORMATION

Budget Financing and Expenditure

According to the law "On State Budget for 2008" the SRS has used the state budget grant in accordance with the confirmed estimates of expenditure and financing plans taking into account the financing restrictions of 62§ "On State Budget Cuts for November and December 2008" of the protocol No.83 of the Cabinet meeting of 25 November 2008.

Total State Financing and Expenditure, in lats

No.	Financing	2007 (Actual performance)	2008	
			Under the law	Actual performance
1.	Financial resources to cover the costs (total)	105 813 230	103 108 932	102 504 563
1.1.	Grants	105 691 689	102 292 190	102 292 190
1.2.	Paid services and other own revenues	121 541	524 795	51 871
1.3.	Foreign financial assistance	0	291 947	160 502
2.	Expenditures (total)	99 793 574	103 166 761	99 878 953
2.1.	Maintenance expenditures (total)	85 151 215	91 062 297	89 078 357
2.1.1.	Subsidies and grants, including contributions to international organizations	12 518 149	14 471 416	14 471 416
2.1.2.	Other maintenance expenditures	72 633 066	76 590 881	74 606 941
2.2.	Expenditures for capital investments	14 642 359	12 104 464	10 800 596

Use of the SRS Transition Facility financing for 2008 in lats

Project name	Foreign financing		State budget co-financing		Used Total
	allocated	used	allocated	used	
Transition Facility	38 935	38 935	7 731	5 318	44 253
Total	38 935	38 935	7 731	5 318	44 253

Use of project financing allocated by *Japan Tobacco International* to the SRS in 2008 to fight against smuggling and counterfeit cigarettes in lats

Project name	Foreign financing		State budget co-financing		Used Total
	allocated	used	allocated	used	
Financing allocated by <i>Japan Tobacco International</i> to fight against smuggling and counterfeit cigarettes	121 567	0	-	-	0
Total	121 567	0	-	-	0

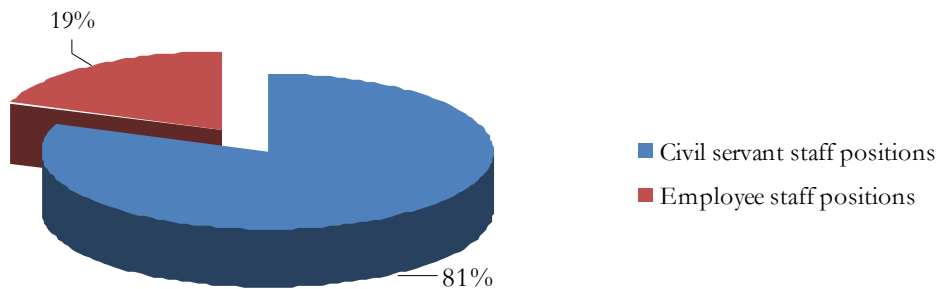
Operational Priorities of the SRS Financial Department:

1. Centralization of the SRS finance area.
2. Improvement of managerial accounting.
3. Analysis of the SRS economic and financial activity.
4. Provision of centralized SRS public procurements.
5. Draft and conclusion of centralized agreements, interagency agreements and cooperation agreements.

PERSONNEL

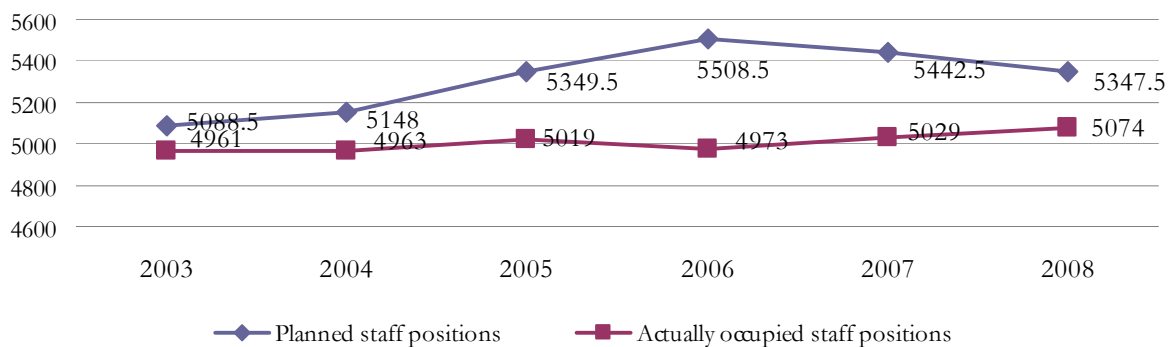
In 2008 a total of 5 347,5 staff units were planned in the SRS, including, 4 315 civil servant staff units and 1 032,5 employee staff units.

Division of Civil Servant and Employee Staff Positions



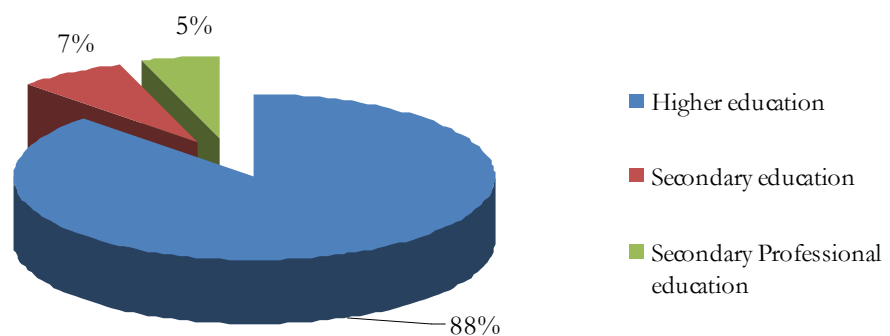
At the end of 2008 there were actually 5 074 civil servants and employees working in the SRS, respectively – 4 094 civil servants and 980 employees.

Statistics of Planned and Actually Occupied Staff Positions

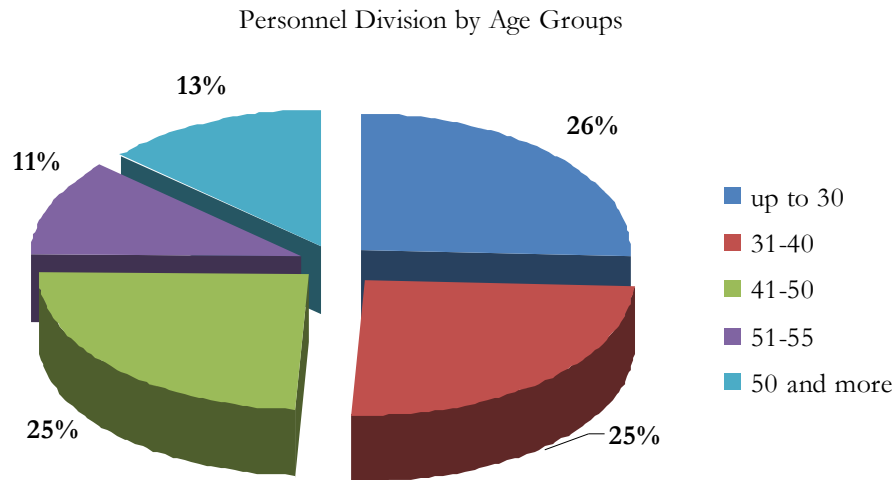


In the end of 2008 there were 4 436 SRS staff members with higher education, 365 - with secondary education and 273 – secondary professional education.

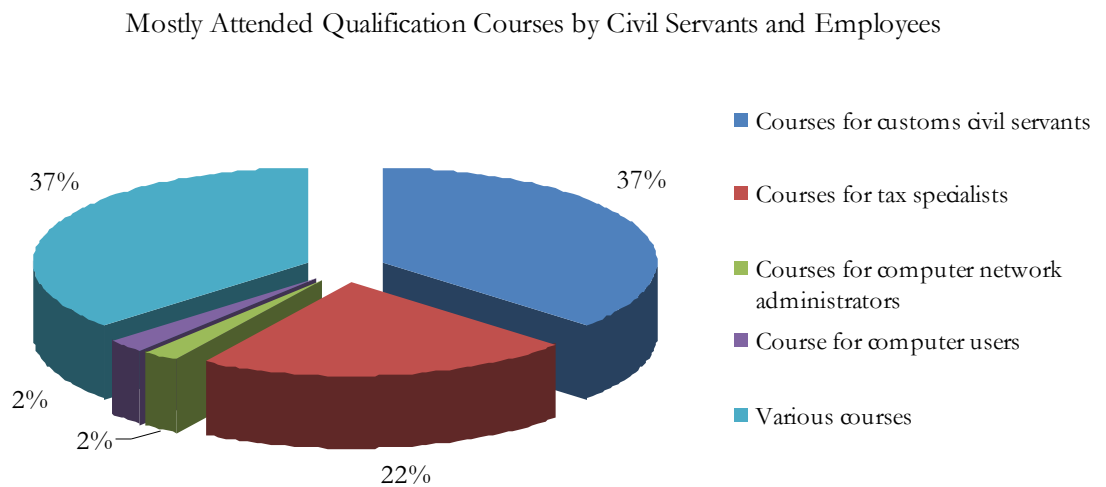
Personnel Education



In the end of 2008 out of 5 074 SRS staff members 1 316 were in the age up to 30, 1 266 – in the age from 31 upto 40 years, 1 242 – in the age from 41 upto 50 years, 59 – in the age from 51 upto 55 and 681 – 56 and more years old.



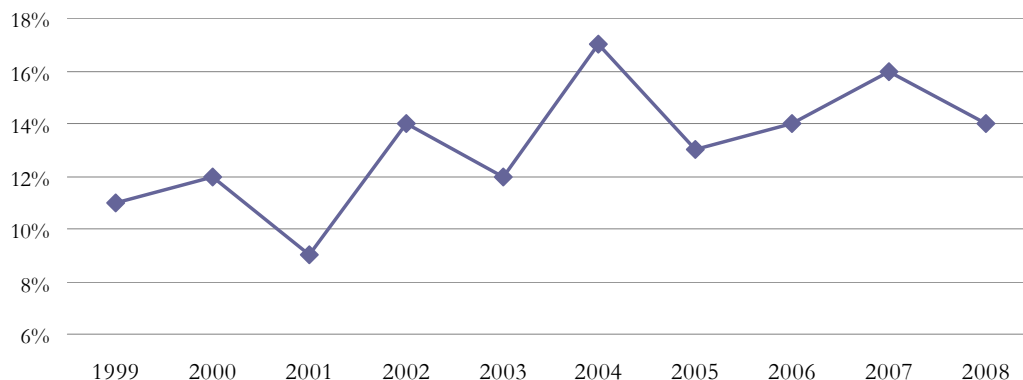
In 2008 qualification courses were attended by 2 635 SRS staff members. The chart below shows the division of civil servants and employees by mostly attended qualification courses.



In 2008 there were 3 647 women working in the SRS thus representing 68 % of all the SRS staff members.

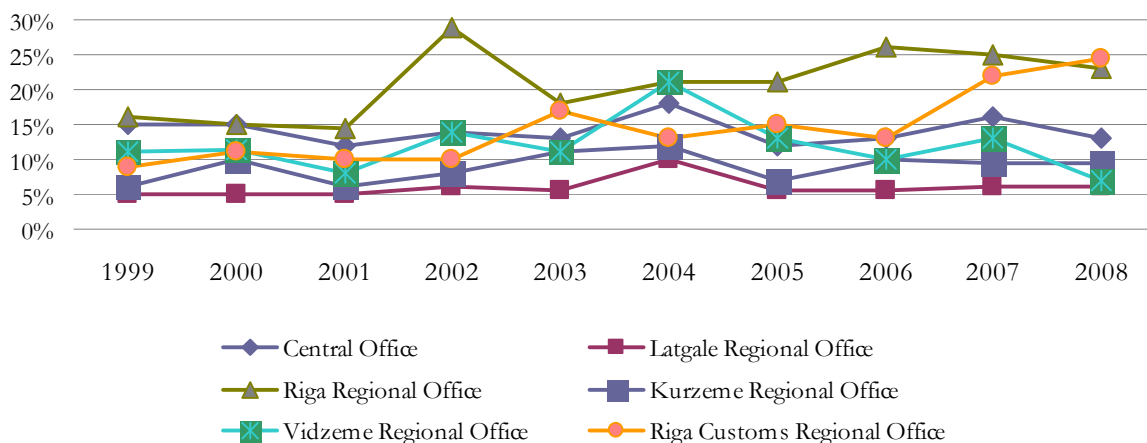
In 2008 the SRS hired 780 staff members. Labour relations with the SRS terminated 673 staff members, out of them 607 were laid off because of their own initiative, 60 – because of employer’s initiative, and 6 staff members died. The overall personnel turnover figure in the SRS is 14 % which is 2 % less than in 2007.

Personnel Turnover Dynamics



The dynamics of the SRS personnel turnover shows distinct personnel turnover trends in particular regions. In Latgale Regional Office has a steadily low personnel turnover, in 2008 – 7 % the turnover was also in Vidzeme Regional Office which compared to previous year has gone down by 6 %. In Riga Regional Office the personnel turnover level is steadily high, in 2008 – 22 %. There has been a 3 % raise in the personnel turnover of Riga Customs Regional Office which at the end of 2008 reached 24 % and is the highest figure in the whole SRS.

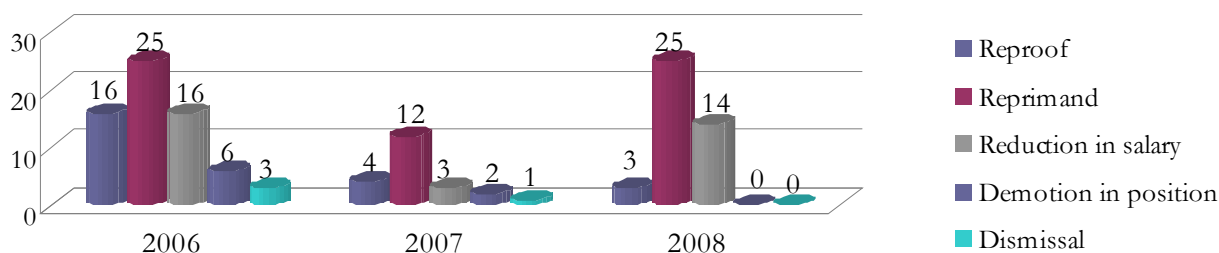
Personnel Turnover Dynamics in the SRS Central Office and Regional Offices



In 2008 the SRS has awarded 1 262 of its staff members: certificate of merit of the Central Office was presented to 1 092 civil servants and employees, the SRS local office's certificate of merit was presented to 170 civil servants and employees.

In 2008 for misconducts 42 SRS civil servants and employees were disciplinary punished, out of them disciplinary punishment – reproof – was applied to 3 civil servants and employees, reprimand – 25 civil servants and employees, reduction in salary – 14 civil servants.

Types of Disciplinary Punishments Applied



In 2008 as a result of the SRS reorganization the number of staff positions was increased by 47 staff positions, including:

- in the SRS Central Office 18 staff positions;
- in the SRS Latgale Regional Office 29 staff positions,

and 142 staff positions were eliminated, including:

- in the SRS Central Office 46 staff positions;
- in the SRS Riga Regional Office 58 staff positions;
- in the SRS Riga Customs Regional Office 9 staff positions;
- in the SRS Vidzeme Regional Office 15 staff positions;
- in the SRS Zemgale Regional Office 9 staff positions;
- in the SRS Latgale Regional Office 5 staff positions.

Structural changes in the SRS Central Office

As of 2 January 2008:

- the Pre-court Hearing of Tax Disputes Division was reorganized and a new structural unit was created – Pre-Court Hearing of Tax Disputes Department (22 staff positions);
- in the IT Department a new structural unit was created – Administrative Management Division.

As of 16 January the Corruption Prevention Department was renamed State Officials Data Administration Department; and as of 28 January the State Officials Declarations and Lists Division of the SRS State Officials Data Administration Department was renamed Declarations and Lists Division.

As of 1 February 2008 in the SRS Central Office the Customs Criminal Board's Drug Enforcement Unit was eliminated and the Intelligence Division supplemented with the I unit.

As of 18 February 2008 in the Transit Control Division of the SRS National Customs Board the Transit Support Service Unit was eliminated and a new unit – Uncompleted Transit Procedures Investigation Unit – was created.

When carrying out reorganization of the structure of the SRS Customs Criminal Board on 12 March Operative Analysis Division and Operative Analysis Unit of the Intelligence Division were eliminated; and the Intelligence Division was supplemented with three new units:

- II unit;
- III unit;
- IV unit.

As of 10 April in the Payment Accounting Division of the SRS National Customs Board there is a new Payment Processing Unit.

As of 12 May in the Personnel Resources Division of the Personnel Management Department Labour Protection Sector was eliminated and Labour Protection System Management Unit was created.

As of September 1 in the SRS National Customs Board Customs Processes Management Division was eliminated; and in the SRS Internal Audit Department Processes Management

Division was created; and in the SRS National Tax Board the European Union Funds Inspection Methodology Unit of the Thematic Checks Methodology Division was eliminated.

As of 2 October in the SRS National Customs Board Permits Control Division with its units was eliminated:

- Permits Supervision Unit;
- Common Agricultural Policy Management Unit

And a new structural unit was created – Customs Matters Control Unit including:

- Permits Supervision Unit;
- Common Agricultural Policy Management Unit;
- Customs Procedures Implementation Control Unit.

In the Information Coordination Unit of the Intelligence Division of the SRS Customs Criminal Board structure as of 1 November a new structural unit was created – National Contact Point.

As of 10 November Processes Management Division of the SRS Internal Audit Department was eliminated, and the SRS Strategic Development was supplemented with a new structural unit – Processes Management Division.

COMMUNICATION WITH THE PUBLIC

"STUPID! ENVELOPE SALARY."

In late spring the SRS organized a large-scale campaign "STUPID! ENVELOPE SALARY." to facilitate discussions within the public, promote negative attitudes towards "envelope salaries", as well as to promote the new SRS hot line 8000 90 70 which is free of charge.

The campaign covered TV and audio clips broadcasted on TV, on the radio and in the cinema "Forum Cinemas", advertising in the press, on the internet, outside advertising in the stops of public transport and on public busses in Riga city.

There were advertising stands located in all the SRS local offices with business cards promoting the SRS hotline.

The campaign had its website www.stulbi.lv where visitors could watch the campaign clips and play a game to determine one's "indicator of stupidity".



Day of Opportunities

What State Revenue Service or the SRS actually is? This is a question quite often asked by children to their parents – in many cases parents can answer, but in some cases they simply scare: "If you'll behave badly, the SRS will come to you!" To avoid such nonsense and explain to younger generation the activities and significance of the SRS structural units, in September and October 2008 three interesting events took place within the series of events "Day of All Opportunities". The events organized by the SRS gathered children and youth in the age from 5 to 18.

1. III competition for children together with their dogs "Well-bred Friend"



The Project series began with a competition for children and youth together with their dogs "Well-bred Friend" which took place on 19 September in Ventspils. There were 18 children and youth participating in the competition together with their pets – dogs. This was the first time when the participants participated in four age groups. This event was even more significant because of the fact that for the first time it took place together with the 6th European Championship for Customs Drug Searching Dogs.



2. Excursions to various SRS structural units and offices, or the project event "Visiting SRS"

From 6 to 10 October there had been the open door day "Visiting SRS". All the SRS local offices and largest structural units had organized excursions where children and youth got introduced with the SRS staff, asked their questions and learned about their job specifics and everyday work. Excursions took place at the same time in the whole Latvia and gathered about 4 000 school children which is two times more than in 2007.



3. Quiz and sports games for secondary schools

"The Day of All Opportunities" Project closed on 10 October in Ikšķile with sports and erudition games for secondary schools in medieval style. There were 23 teams from various Latvia's schools participating in the disciplines like "Robins JakānHood" (shooting with an arch), "Hunt for Non-taxpayers" (throwing a javelin), "Polka of Medieval Customs Officers" (jumping over the rope). The victory and the challenge cup went to Jelgava Spīdola Gymnasium.



6th European Championship of Customs Drug Searching Dogs



This year the SRS has the honour to organize also the 6th European Championship of Customs Drug Searching Dogs which took place from 15 to 19 September in Ventspils. In the championship participated 37 dogs with their handlers from 19 countries: Austria, Belarus, Belgium, Bulgaria, the Czech Republic, Estonia, Finland, Germany, Hungary, Latvia, Lithuania, Norway, Poland, Russia, Slovakia, Sweden, Switzerland, Ukraine and Uzbekistan. The performance of dog handlers and drug searching dogs when searching in premises, passenger cars, trucks and luggage, as well as in obedience discipline had



been evaluated by internationally recognized referees. By showing excellent performance in all the five disciplines, as mentioned before, in the individual competition the most successful was exactly the representative of Latvia – customs officer Rolands Kozlovskis with the drug searching dog Sammy. In the competition of 19 countries the Latvian team won the third prize.

Opening of Customs and taxes history museum and presentation of the book "Taxes, duties and customs in Latvia"



As of the end of 2008 everyone has an opportunity to study the depository of culture values, namely, get an insight into Latvian customs and taxes history from the ancient times upto now, for in honour of the 90th anniversary of the Republic of Latvia and the 15th anniversary of the SRS a Customs and taxes history museum was opened. Thanks to the cooperation between Riga Technical University (RTU) and the SRS, every interested person in the RTU building in Meža Street 1 may take a look at customs officers' uniform, confiscated goods, books on customs and other interesting exhibits. Opening of the museum came together with presentation of a book



which is the result of cooperation between the RTU and the SRS "Taxes, duties and customs in Latvia" telling interesting and previously unheard-of facts starting from Ancient Latvia upto the period after regaining independence. A book which fascinates not only those working in the area of finance or customs but also anyone who's interested in history, was presented to Latvian schools and largest libraries.

Work with mass media

The SRS regularly informs the public on current topics in its work through mass media, both, providing information on its own initiative and answering questions posed by journalists. Data on mass media monitoring (carried out by limited liability company "Mediju Monitorings") suggest that the average number of publications/reportings on the SRS, as well as on issues

within the SRS competence (taxes and tax evasion, customs, excise goods movement etc.) in mass media (printed, TVs, radio and internet, regional newspapers) is 900, that is, on average 40 over a working day.

PRIORITIES FOR 2009

In Tax Administration:

1. The main task will be to ensure the collection of taxes administered by the SRS in the maximum effective way.
2. Taking into account the economic development situation expected for the year 2009, the main tasks of the tax administration will be to balance the contribution in streamlining taxpayer servicing and carrying out control and preventive measures.
3. For taxpayer convenience the SRS plans a gradual transition to providing client service in any SRS local office in Latvia regardless the client's declared place of residence or legal address.
4. It is planned to develop and introduce the electronic VAT refund system for receiving refunds in other EU Member States.
5. The SRS will continue to carry out preventive and control measures to eliminate unregistered business activity and "envelope salaries".
6. Regardless the reduced financing for the year 2009, the SRS will continue to streamline client service and further development partnerships with its clients in honest tax compliance providing maximum support within the framework of legal rights and obligations.

In Customs Operation:

1. According to the established time frame gradually implement Electronic customs projects, providing the option to submit TIR data in the NCTS Economic Operators module electronically as of 1 January 2009 and implementation of the national Import Control System, Export Control System, the Economic Operators' Registration and Identification System as of 1 July 2009.
2. To enhance the efficiency of customs physical control, including bringing the possibility for natural persons to import excise goods from third countries without paying taxes to the minimum.
3. Continue the started initiative – infrastructure modernization of the external border of the by installing a new scanner in the Grebņeva BCP.
4. In the next year the SRS Customs Criminal Board will continue its work according to the objectives set in the Strategy for Smuggling Prevention and Combating 2005-2009 developed by the SRS customs authorities.

In Prevention and Combating Criminal Offences and Smuggling:

Priorities of the Finance Police in 2009 will be combating tax evasion, legalization of proceeds of crime and fight against organized crime.

In the Field of Excise Goods Movement:

1. To provide the possibility to file via the SRS EDS reports on petroleum product (fuel) reserves, reports on the circulation of excise duty stamps on alcoholic beverages and tobacco products, as well as applications for receiving excise duty stamps.
2. Continue to work on the implementation of the Excise Movement Control System – EMCS according to the changes in the EMCS implementation plan confirmed by European Community.
3. To develop draft normative acts regulating excise goods movement and application of excise duty according to the standards of the new Council Directive 2008/118/EC of 16 December 2008 concerning the general arrangements for excise duty and repealing Directive 92/12/EEC.
4. To merge the procedures of licensing excise goods and registration of general guarantee certificates.

5. To tighten the supervision over traders who have obtained permits to acquire excise goods subject to excise duty reliefs.
6. To change the design of excise duty stamps on alcoholic beverages and tobacco products by improving their security features.

In cooperation with clients

1. Development of electronic services provided to the SRS clients.
2. Introduction of the SRS client service standard.

In internal development

1. Optimization of the SRS structure, functional performance and resources.
2. Development of a new SRS Strategy for 2010-2012.
3. Development of integrated structure of the SRS Strategy analysis, risk management and quality management systems.