



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

ANNUAL REPORT

2007

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INTRODUCTION OF THE STATE REVENUE SERVICE DIRECTOR GENERAL

Dear Reader,

When reviewing the year 2007, we have to admit that we have successfully performed the task given to us and we have not only increased revenue by 33,8 % compared with 2006, but also have been able to exceed the budget plan by 1,9 % or 84,22 million lats. Such an increase in revenue can be largely accounted for by the rapid development of the Latvian economy, while the plan fulfilment and overachievement wouldn't have been possible without the successful work in state tax administration. We're happy that the State Revenue Service (hereinafter – SRS) is performing its duties more and more efficiently, i.e., getting better results by using fewer resources, for example, in tax auditing and in the case of additionally calculated amounts during the audits.



In 2007 a great attention was paid to increase the number of document types, which can be submitted using the SRS Electronic Declaration System (hereinafter – EDS), so that the taxpayers could meet their liabilities to the state more easily; we have organized a number of educational events on EDS; a number of changes into the legislation were made on our incentive. In the future, the SRS will continue the work to become more efficient, more modern, and more accessible to the taxpayers.

I would like to thank all the honest taxpayers, because, thanks to them the budget has the funds, on which the educational institutions can be built, pensions can be increased, and the highways can be illuminated. Also, I express my gratitude to the cooperation partners of the SRS, with the help of which we were able to achieve such good results in 2007.

Our goal for 2008 is to simplify the process for taxpayers to meet their liabilities to the state, both by sophisticating our services by allowing them to be accessed electronically, and by initiating changes in the laws and regulations. The SRS is working every year to become a service institution.

Dzintars Jakāns
SRS Director General

BASIC INFORMATION

Vision of the SRS

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

Purpose of the SRS

Fair administration of taxes and the protection of society and commercial activities 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 principle.
4. Continuous improvement principle.
5. Cooperation and mutual respect.

Values of the SRS

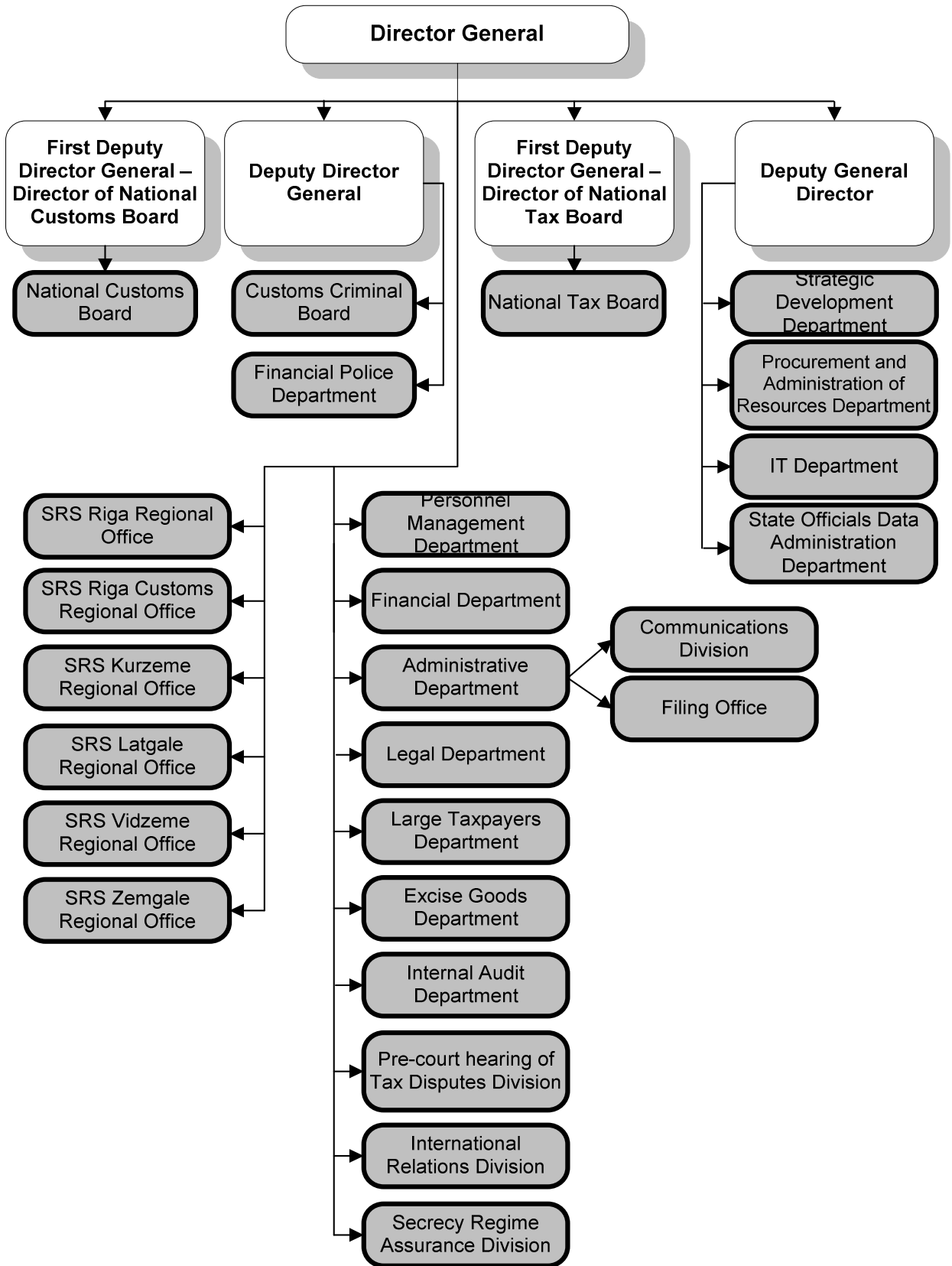
1. Fairness.
2. Professionalism.
3. Responsibility.
4. Loyalty.

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. To ensure that everyone is fulfilling their tax and customs liabilities voluntarily.
2. To ensure enabling environment for fair commercial activities.
3. To ensure the highest security level on external borders of the European Union.
4. To ensure efficient management of the SRS 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 matters.
6. Combating of 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 SUB-PROGRAMS

Title of results and performance indicators	Number/volume per year	Actual performance
A	1	2
33.00.00 program State Tax Administration		
Administrative capacity		
Number of institutions	1	1
Number of staff units	3 727	3 405
Policy Results		
Provided collection of taxes and duties revenues administered by the State Revenue Service in accordance with the law on the budget (million lats)	4 077,3	4 596,95
VAT revenues (million lats)	1 190,00	1 202,93
(% from total revenues), incl.	29,2	26,17
Inland Revenues		
Total excise duty revenues (millions lats)	418,15	448,09
Corporate income tax revenues (millions lats)	324,32	399,75
Personal income tax revenues (millions lats)	750,98	887,80
Mandatory state social insurance contributions (millions lats)	1 150,00	1 377,38
Customs tax (millions lats)	20,75	27,85
Operational Results		
Tax Administration		
1. Registration and record keeping of taxable objects and taxpayers performed in accordance with the procedure set by the laws and the regulations of the Cabinet of Ministers.		
1.1. the number of newly registered taxpayers, legal persons	10 800	13 697
1.2. the number of newly registered taxpayers, structural divisions	15 000	13 286
1.3. the number of newly registered persons liable to value added tax	9 000	13 098
2. The declarations and reports received and processed from the taxpayers in accordance with the laws and regulations		
2.1. the receipt of declarations and reports (Value added tax declarations, Corporate income tax declarations, Reports on MSSIC) from the taxpayers within the time limits as set in the laws and regulations (%)	97,7	97,79
2.2. the percentage of reports and declarations entered into the information system relative to the received	100,0	99,99
3. The consultation of taxpayers provided in the matters of application of tax normative acts		
3.1. the number of consultations provided to the taxpayers, incl.	420 000	503 511
On the SRS helpline	50 000	54 617
3.2. the number of educational events for taxpayers (seminars, discussions, lectures, etc.)	1 650	2 157
4. Performed correctness and payment control of taxes'		

(duties) calculation and payments		
4.1. tax audits	2 100	1833
A	1	2
4.2. thematic inspections	32 000	27 623
4.3. value added tax overpayment refunding inspections (number)	29 000	28 360
4.4. the value added tax declaration credibility assessment performed for persons liable to value added tax (%)	100	100
4.5. taxpayers, for whom the corporate income tax declaration credibility assessment is performed (%)	100	42
4.6. taxpayers, for whom the credibility assessment was performed on the reports about mandatory state social insurance contributions made from employee income and the personal income tax (%)	100	100
5. Performed recovery of debts for the SRS administered taxes and duties, as well as the mandatory payments set by other countries		
5.1. percentage of recovered debts of the actually recoverable active debts (in average per month, %)	22,0	36,99
6. Performed regular information exchange with the tax administrations of other EU member states in the area of value added tax (information requests on transactions within the EU (SCAC)), incl.		
6.1. information requests (SCAC) sent to other EU member states	430	788
6.2. information requests received from other EU member states and processed	350	713
7. Performed regular exchange of operational data on excise goods movements, incl.		
7.1. Early Warning System for Excise (EWSE) notices sent	450	267
7.2. Early Warning System for Excise (EWSE) notices received	500	185
7.3. excise goods Movement Verification System (MVS) requests sent	65	59
7.4. (MVS) requests received	65	86
8. Ensured timely exchange of information with the tax administrations of the EU and third countries in the field of direct taxes		
8.1. upon request and spontaneous information exchange, case count	800	657
8.2. automatic information exchange (incl., on income from accruals), taxpayer case count	13 000	14 892
Excise Goods Movement		
1. Timely, qualitative taxpayer servicing ensured by issuing, reregistering and revoking special permits (licences), permits, notices, and certificates in the field of excise goods movement		
1.1. issued, reregistered licences, notices, permits, and certificates	3 500	5 062
1.2. revoked licences, notices, permits	600	915
1.3. issued single permits	30	32

2. Timely and qualitative taxpayer servicing ensured by issuing, reregistering and revoking excise duty guarantee certificates		
2.1. issued, reregistered certificates	320	307
A	1	2
2.2. revoked certificates	200	206
3. Excise duty stamps issued to the importers of alcoholic beverages and tobacco products, excise warehouse keepers, and the representatives of taxpayers (millions)	387	364
4. A regular receipt and processing of monthly reports submitted by the commercial entities on the use of excise duty stamps and the use of general excise duty guarantee		
4.1. reports on tobacco products excise duty stamps	280	314
4.2. reports on alcoholic beverages excise duty stamps	700	721
4.3. reports on the use of general guarantee	2 290	2 412
5. A regular receipt and processing of monthly reports on the movement of excise goods and their raw materials within the licensed and registered commercial entities		
5.1. reports on the movement of petroleum products (fuel)	5 910	5 458
5.2. reports on the movement of alcohol	4 550	4 738
5.3. reports on the movement of beer	1 500	1 932
5.4. reports on the movement of tobacco products	1 300	1 210
6. Ensuring the preparation of regular and special analytic materials on the excise goods market development trends	45	50
7. Ensuring the information exchange between the SRS divisions on the matters of excise goods movement risks		
7.1. Excise goods movement risks implemented and functioning in the Risk Environment Analysis System	131	118
7.2. Excise goods movement risks forms processed and entered into the Tax Information System (TIS)	360	530
7.3. the lists, in which the commercial entities are differentiated according to the results of risk information analysis, updated and published in the data store Business Objects	24	15
8. Control measures performed in the field of excise goods movement		
8.1. inspections performed	3 838	3 672
8.2. the samples of petroleum products taken and the quality control performed	1 750	1 810
8.3. violations detected	976	907
8.4. fine (lats) applied	90 695	87 900
9. Reports on petroleum product reserves received and summarized	600	648
10. Drafted and submitted for approval projects of normative acts, which are related to excise goods movement	3	3
11. Drafted projects of internal SRS normative acts, which are related to excise goods movement	20	21
12. Statements issued about projects of normative acts developed by the SRS divisions, other state institutions, as well as projects of other EU member state technical regulations	25	27

13. Implemented informational, educational, and consultation measures on the matters in the application of normative acts regulating the excise duty movement		
13.1. consultations provided to taxpayers	102 800	86 500
13.2. seminars, discussions, lectures, and other events	13	14
14. Ensured the implementation of Excise goods Movement and Control System (EMCS) according to the time-limits set by the EC (%)	60	60
A	1	2
34.00.00 program Provision of Customs Operation		
Administrative capacity		
Number of staff units	1 590	1 436
Policy Results		
1. Collection of customs payments administered by the SRS into the state base budget according to the law on budget (millions of lats)	252,0	306,07
1.1. excise tax for petroleum products (millions of lats)	17,3	17,39
1.2. customs tax (millions of lats)	20,75	27,85
Operational Results		
2. National Customs Board		
2.1. physical customs controls performed on vehicles and cargos (goods)	160 000	412 307
2.2. automatic railway weighing-machine installed on the railway	1	0
3. Customs Criminal Board		
3.1. evaluated notifications (according to the Criminal Procedure Law of the Republic of Latvia)	65	116
3.2. criminal procedures started	50	76
3.3. criminal cases sent to start the prosecution	40	41
3.4. administrative offence statements issued during the performed inspections	300	205
35.00.00 program Detection and Prevention of Financial Offences and Corruption		
Administrative capacity		
Number of staff units	318	257
Policy Results		
Disclosed criminal offences	490	444
Operational Results		
1. Financial Police		
1.1. materials reviewed to initiate criminal procedures (Article 369, Section Two of the Criminal Procedure Law of the Republic of Latvia)	1 636	1 148
1.2. criminal charges brought to prevent the crimes against the state revenue	1 200	806
1.3. criminal cases sent for prosecution to prevent the crimes against the state revenue	480	444
1.4. the administrative statements prepared during the inspections for prevention of crimes against the state revenue	150	66
1.5. the volume of losses caused to the state in the criminal procedures sent for starting the prosecution (millions of lats)	30	29
2. Corruption prevention		
2.1. declarations of state officials received, registered, and entered into the database	78 000	83 707

2.2. state and municipal state official lists and their amendments received, registered, and entered into the database	3 700	4 117
2.3. inspections of state official lists and their amendments performed in the state or municipal institutions	350	315
2.4. adopted decisions on taking to administrative accountability	350	245

MANAGEMENT AND OPERATION IMPROVEMENT SYSTEMS

Internal Control System

According to the State Revenue Service development strategy for 2007–2009, one of the strategic goals of the SRS is to ensure efficient management of the SRS internal processes. It is necessary to strengthen the internal control system to reach this goal. 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. Overall, the internal control systems in the SRS are working efficiently. The reports were submitted to the SRS Director General on the results of performed audit.

The strategic plan of the Internal Audit Department for 2008–2012 was developed based on the work results, resources of the internal audit division, new system implementation, and other factors, which influence the internal audit environment.

To improve the quality of audit and to ensure the evolution of the SRS, the SRS Internal Audit Department is successfully engaged in the experience exchange promotion by cooperation within the project *Fiscalis* with the Estonian and Lithuanian tax and customs administrations on internal audit matters.

TAX ADMINISTRATION

Dear Reader,

By submitting the report on the SRS operation in 2007 for your evaluation, we would like to note, that in 2007 the work of tax administration in ensuring the collection of budget revenues has been effective. Tax and non-tax revenues administered by the SRS provided 4 596,95 million lats to the budget for the year 2007, which is 1 160,78 million lats or 33,8 % more than the year before. It is the highest tax revenue increase in recent years. Such an increase in revenues can be largely accounted for by the development trends of the Latvian economy.

However, such a result could not be achieved without effective and responsible actions for fulfillment of their duties by both parties involved – the tax administration staff and the taxpayers.

The duty of the tax administration is to administer taxes fairly, efficiently, correctly and as conveniently as possible for taxpayers, who are our partners in reaching the common goal, thus, it is important to create balanced partnership based on mutual respect and understanding.

In 2007 the tax administration paid great attention to simplify the process for taxpayers to meet their liabilities to the state, to reduce administrative barriers for entrepreneurship, to change the existing perception that the tax administration is only the performer of punitive functions, as well as to achieve more efficient use of the SRS resources.

To ease the meeting of taxpayers liabilities to the state, several normative acts were improved after proposals from the SRS, as a result of which the procedure for filling out the personal income tax declaration has been simplified, the corporate income tax declaration has been improved, the information to be provided in the value added tax (hereinafter - VAT) declaration annex has been decreased, the natural resource tax report form has been simplified.

Starting from 1 January 2007 the invoices with the SRS assigned number should be used to format a transaction in all fields – also for transactions with alcoholic beverages, tobacco products, petroleum products, medication, and timber products. The sellers and experts in cash-registers, cash-systems, specialized devices and equipment are no longer registered in the SRS. The submission number of reports on invoice number use has been decreased, and their form has been simplified.

Starting from 1 July 2007 the taxpayers can register not only bundles of receipts or tickets, but also numbers of the receipts or tickets in the SRS regional office, thus considerably shortening the time to prepare receipts or tickets for registering in the SRS.

In 2007 the SRS Electronic Declaration System (EDS) and a new feature was offered in the EDS for taxpayers – to review the tax payment status of owned and represented taxpayers (legal or physical persons) online.

The tax administration will continue its work to be more efficient, more modern, and more accessible to taxpayers.

Here's to successful cooperation,
First Deputy Director General of the SRS
Director of National Tax Board

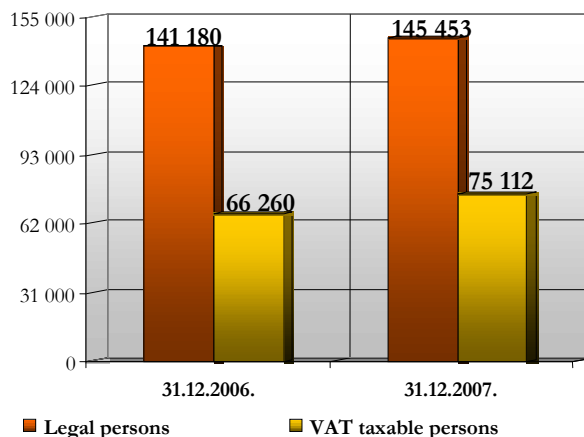
N.Jezdakova

Number of Taxpayers

According to the data of the Taxpayers Register on 31 December 2007, the number of taxpayers – legal persons has increased by 4 273 persons or 3,0 % compared with 31 December 2006.

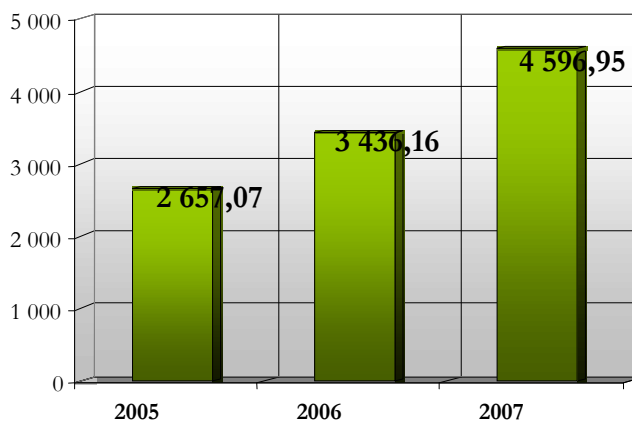
The number of value added tax taxable persons has increased by 8 852 persons or 13,4 %.

Dynamics of the Number of Taxpayers



Performance of Budget Revenues Administered by the SRS

The Combined Budget Revenues Administered by the SRS 2005 to 2007, million lats.



Tax and non-tax revenues administered by the SRS provided 4 596,95 million lats to the budget for the year 2007, which is 1 160,78 million lats or 33,8 % more than for the year 2006. Despite the adoption of the law Amendments to the Law On the Budget for the year 2007 the SRS administered budget revenue plan for year 2007 was increased by 435,30 million lats or 10,7 %, yet it still collected 84,22 million lats or 1,9 % more than planned.

In 2007 the increase of tax and non-tax revenues administered by the SRS was mainly influenced by the development trends in the Latvian economy, the increase in particular tax rates, and improvements in the tax administration system.

The Budget Revenue Administered by the SRS

Types of Taxes	Revenue (million lats)		Difference (2007 minus 2006)		Performance of the annual plan, %
	2006	2007	million lats	%	
Corporate income tax	253.81	399.75	145.94	57.5	98.6
Value added tax	930.55	1 202.93	272.38	29.3	99.8
Excise duty	366.20	448.09	81.90	22.4	104.6
including for:					
alcoholic beverages	72.61	89.86	17.25	23.8	99.7
beer	9.85	10.57	0.72	7.3	100.6
tobacco products	57.50	74.24	16.74	29.1	114.8
oil products	220.67	267.43	46.76	21.2	104.1
other excise goods	5.57	5.99	0.42	7.6	100.9
Customs duty	20.72	27.85	7.13	34.4	103.3
Revenue from the Bank of Latvia payment	1.46	0.99	-0.47	-32.3	100.0
Revenue from dividends (revenue for the use of state (municipal) capital)	46.52	59.46	12.94	27.8	99.9
Lottery and gambling tax	15.85	22.38	6.53	41.2	103.4
Passenger car and motorbike tax	13.68	16.70	3.02	22.1	93.8
Electric energy tax	0.00	0.53	0.53	-	151.0
State (municipal) duties and stamp duties	101.22	114.74	13.53	13.4	93.6
Penalties and sanctions	13.12	13.44	0.32	2.4	98.1
Other non-tax revenue	4.61	14.51	9.90	215.0	403.2
Social insurance contributions	1 000.20	1 377.38	377.18	37.7	104.0
Personal income tax	657.27	887.80	230.53	35.1	102.0
Natural resources tax	10.96	10.38	-0.57	-5.2	91.6
Total	3 436.16	4 596.95	1 160.79	33.8	101.9

PERFORMANCE OF TAX REVENUE BY THE TYPES OF TAXES

Corporate Income Tax

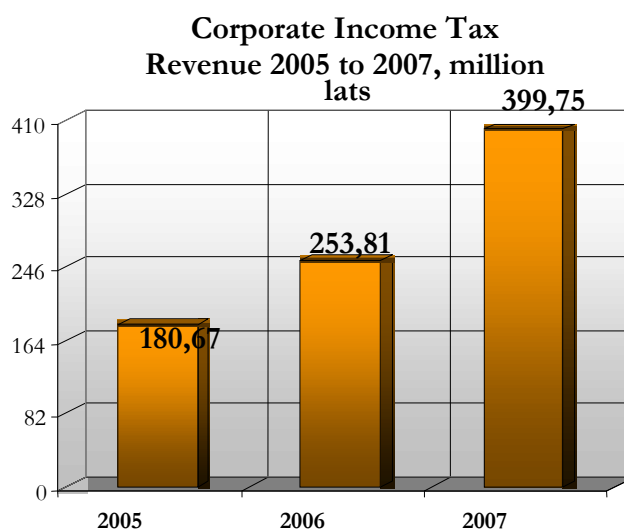
Corporate income tax is paid by:

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, physical 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 %.



Value Added Tax

VAT taxable person is a physical or a 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 for value added tax taxable persons.

If the total value of taxable goods supplied by and services provided by a physical or a 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 for value added tax taxable persons.

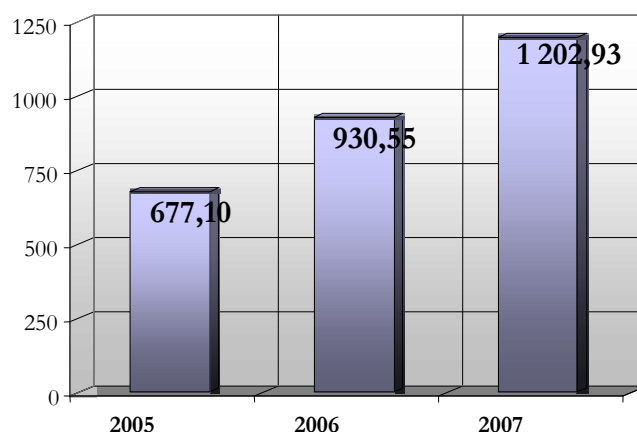
Value added tax rates:

1) 18 %;

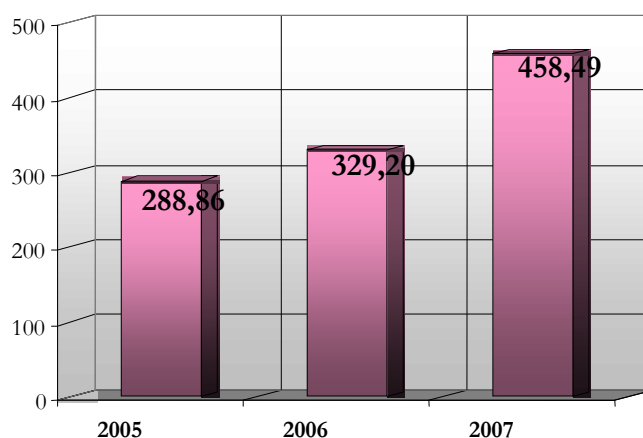
2) 5 %;

3) 0 %.

**Value Added Tax
Revenues 2005 to 2007,
million lats**



**Value Added Tax Refunds
2005 to 2007,
million lats**



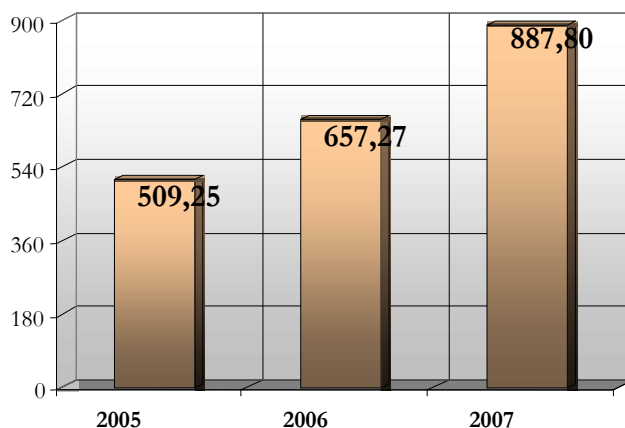
Personal Income Tax

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.

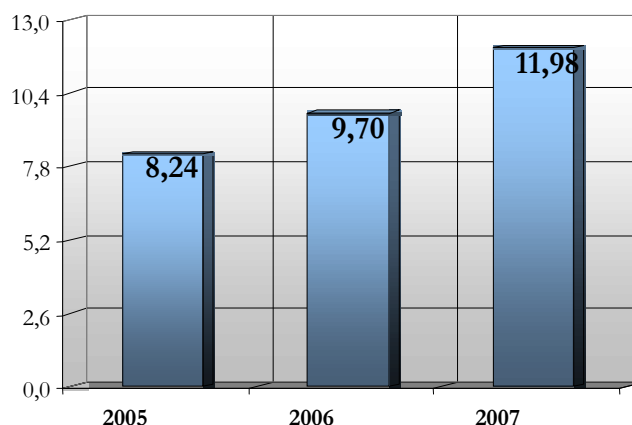
Personal income tax is paid by physical persons – residents, who have earned income during the taxation period in the Republic of Latvia and/or abroad, and physical persons – non-residents, who have earned income during the taxation period in the Republic of Latvia.

Personal income tax rate is 25 %.

**Personal Income Tax
Revenue 2005 to 2007,
million lats**



**Personal Income Tax
Refunds 2005 to 2007,
million lats**



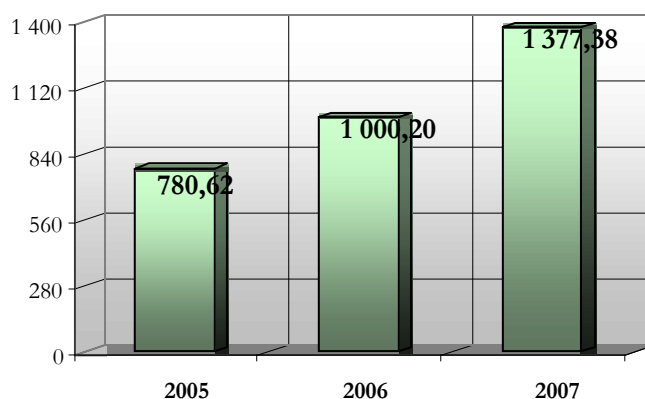
Mandatory State Social Insurance Contributions

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 %).

**Mandatory State Social Insurance
Contributions Revenue 2005 to 2007, million
lats**

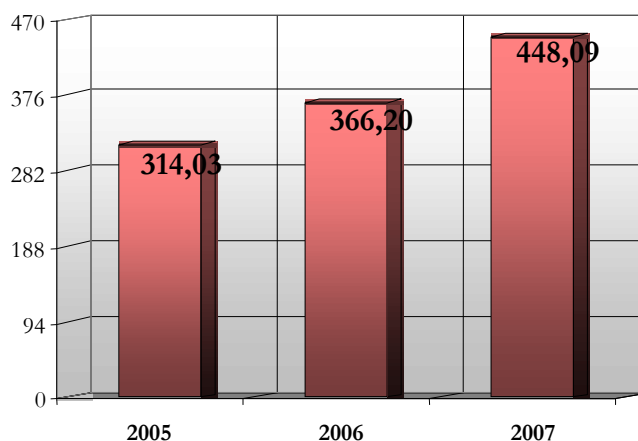


Excise Duty

Excise duty is paid by:

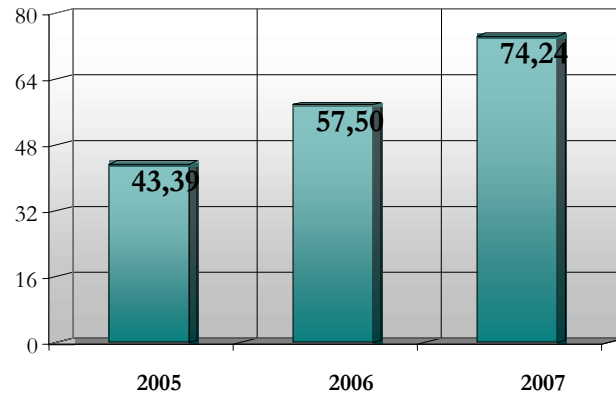
- 1) a person, who imports excise goods into the Republic of Latvia from abroad, which is not a European Union member state (from third countries) with a purpose to release them into circulation;
- 2) a person, who has a status of the excise goods warehouse holder, who receives excise goods from other 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 holder, 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 an approved 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 holder, approved or unapproved status of a trader, prior to sending the goods to other member states.

**Excise Duty
Revenues 2005 to
2007, million lats**



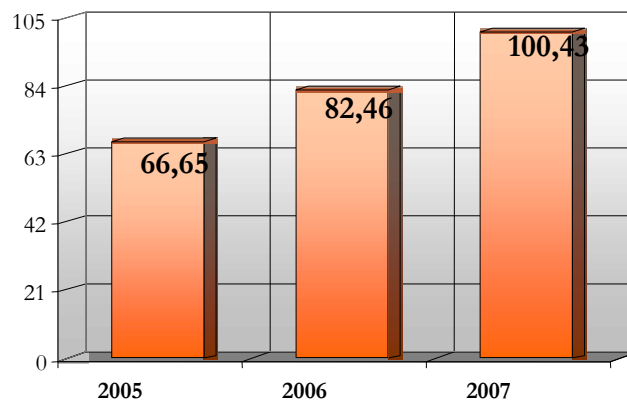
Excise duty rates for tobacco products depend on the type of the tobacco product.

**Excise Duty Revenues
from Tobacco Products,
2005 to 2007, million lats**



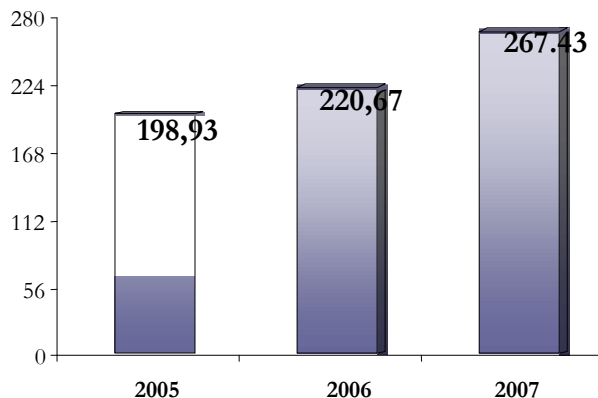
Excise duty rates for alcoholic beverages and beer depend on the type of alcoholic beverage and the absolute volume percentage of alcohol in it.

**Excise Duty Revenues from
Alcoholic Beverages and Beer,
2005 to 2007, million lats**



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

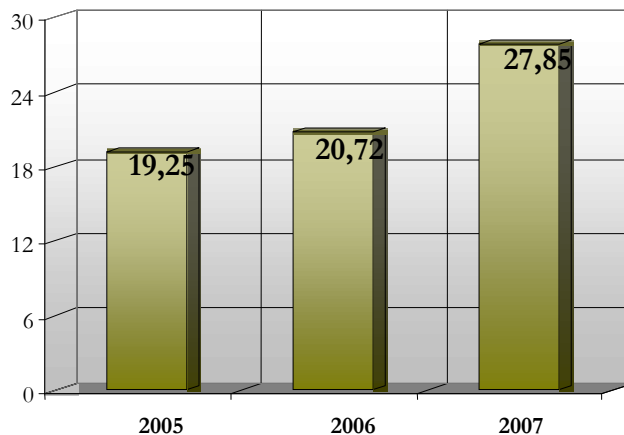
**Excise Duty Revenues
from Petroleum Products,
2005 to 2007, million lats**



Customs Tax

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

**Customs Tax
Revenues 2005 to
2007, million lats**

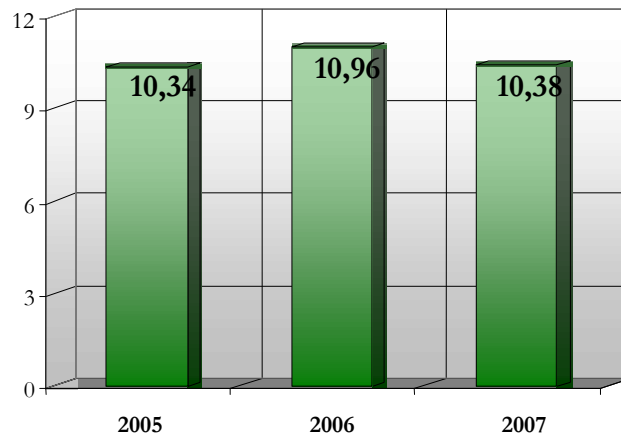


Natural Resources Tax

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.

**Natural Resources Tax
Revenues 2005 to 2007,
million lats**



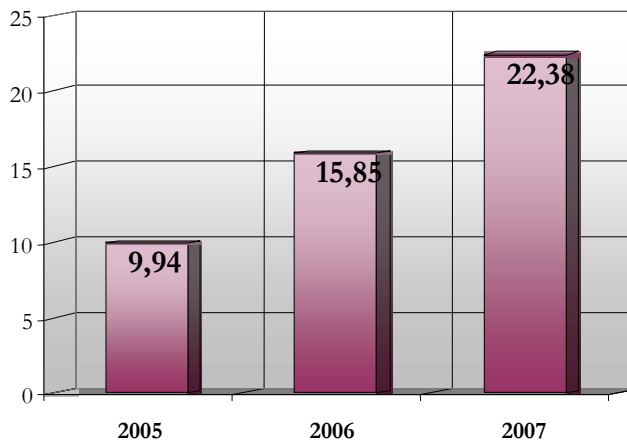
Lottery and Gambling Tax and Duty

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.

**Lottery and Gambling Tax
Revenues 2005 to 2007,
millions lats**

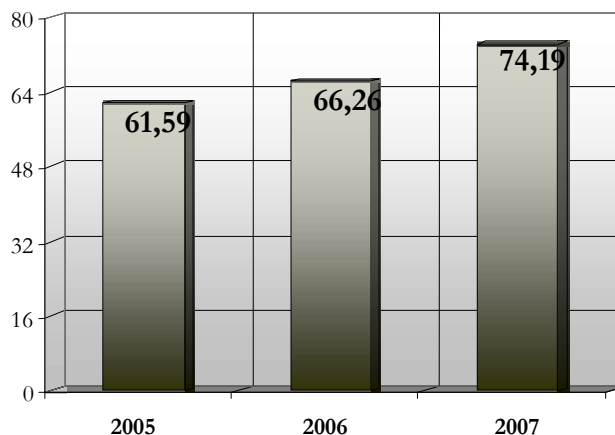


Real Estate Tax

Real estate tax is administered by municipalities and the SRS. Municipalities notify the taxpayer about the real estate tax amount for 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 1,5 % of the cadastral value of the real estate.

**Real estate tax revenues
2005 to 2007,
million lats**



Passenger Car and Motorcycle Tax

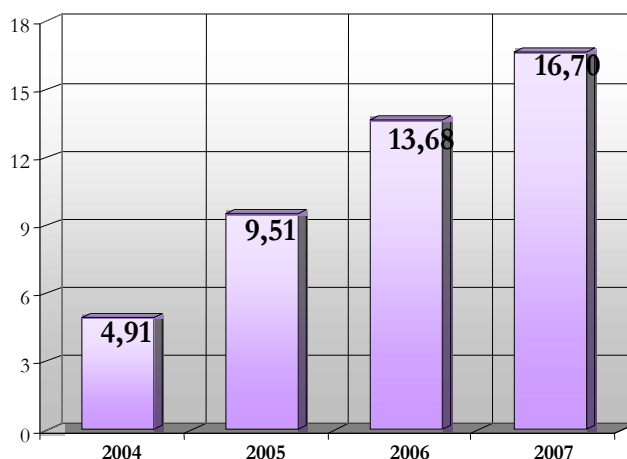
The passenger car and motorcycle tax was introduced in 1 May 2004, prior to that the excise duty on passenger cars and motor cycles was collected.

The passenger car and motorcycle tax is paid for a passenger car or a motor cycle, 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

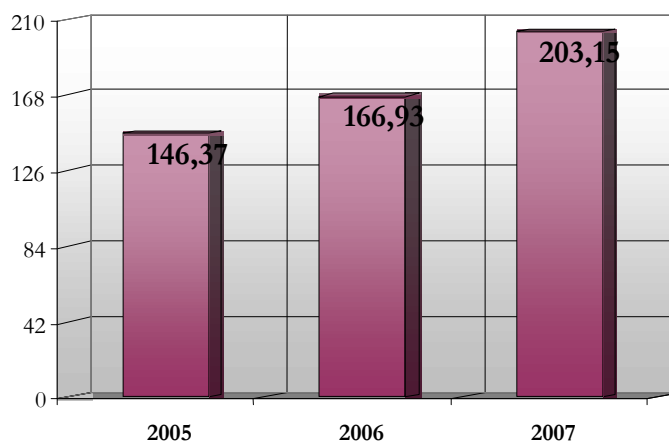


State Duties and Non-tax Payments

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 2005 to 2007, million lats

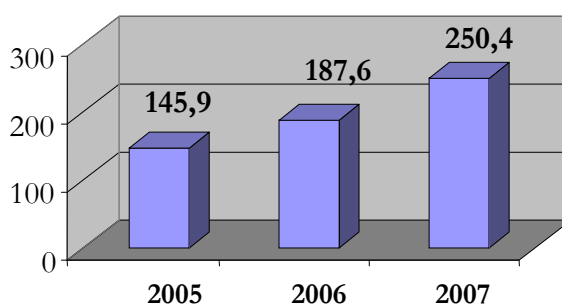


TAX ENFORCEMENT

In 2007 the tax enforcement work of the SRS Regional offices, the SRS Large Taxpayers Department, and the SRS Customs offices resulted in collection of 250.4 million lats to the budget. In 2007 62,8 million lats or 33,5 % more was enforced than in 2006. From the total of enforced taxes for 2007:

- social insurance contributions make up for 78,6 million lats or 31,4 %;
- value added tax – 96,1 million lats or 38,4 %;
- personal income tax – 44,2 million lats or 17,7 %;
- corporate income tax – 25,6 million lats or 10,2 %;
- excise duty – 2,0 million lats or 0,8 %;
- other taxes and payments – 3,9 million lats or 1,6 %.

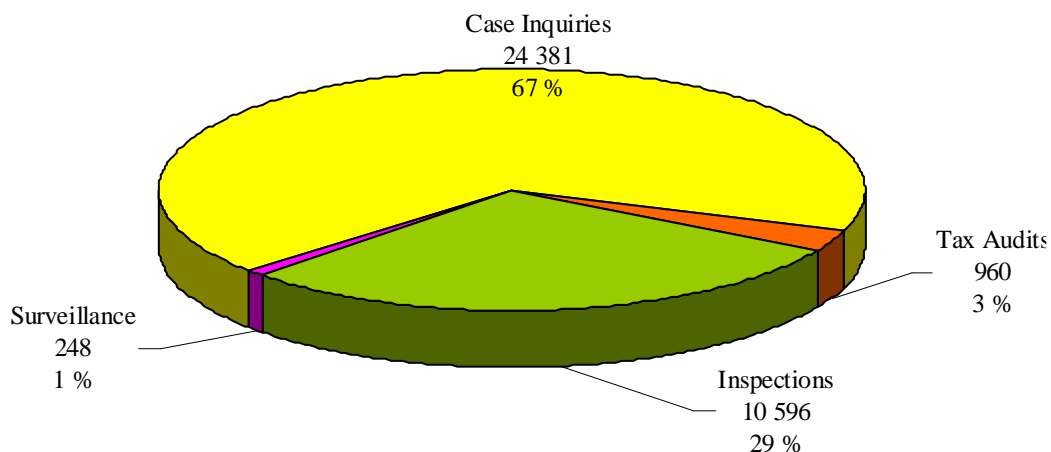
**The amount collected as a result
of SRS tax enforcement,
million lats**



TAX CONTROL

The SRS Regional offices and the SRS Large Taxpayer Department have performed 40 954 tax control activities in 2007 – tax audits, thematic inspections, surveillance and inspections of 21 282 legal persons (36 185 tax control activities) and 3 339 physical persons (4 769).

Tax Control Measures for Legal Persons in 2007, Division by Tax Control Measure Type

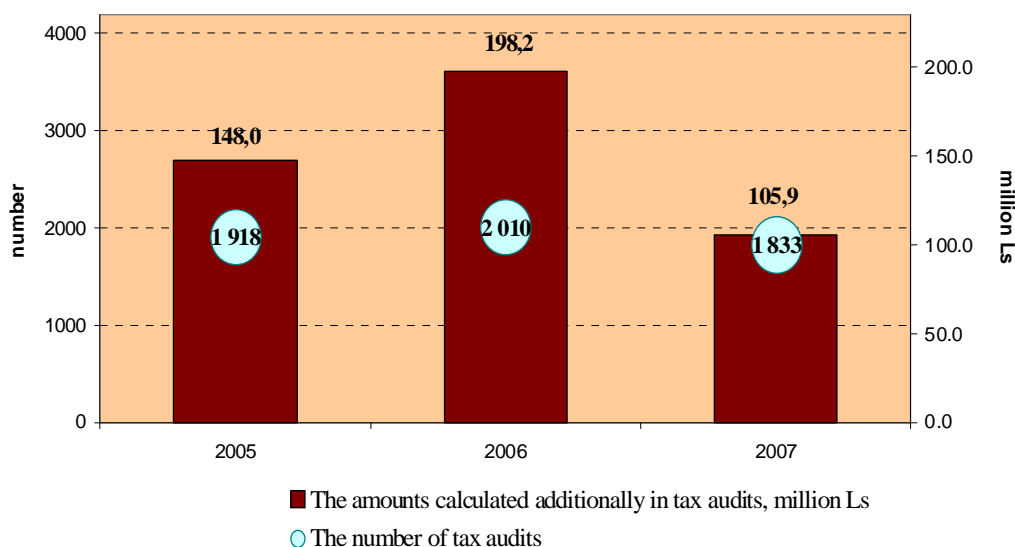


In 2007 67 % of all of the performed tax control activities on legal persons were thematic inspections, 29 % - taxpayer inspections, 3 % - tax audits, and 1 % - surveillance.

Tax Audits

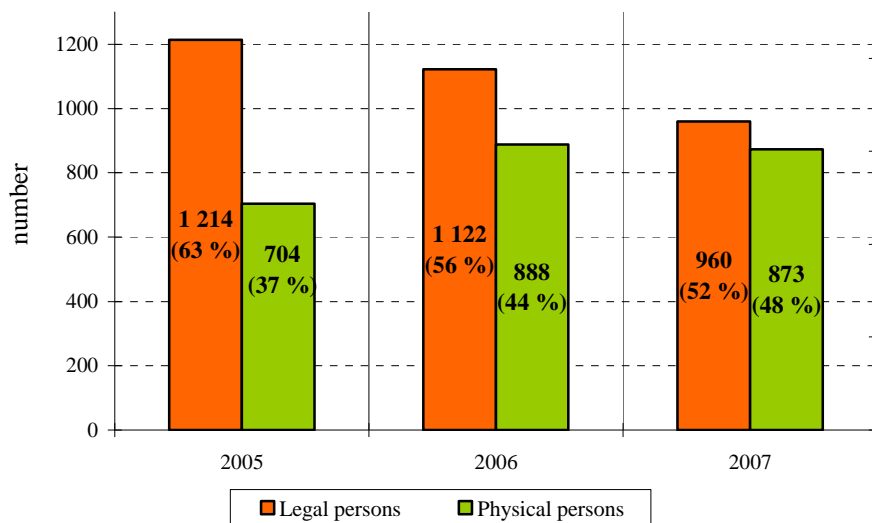
The SRS institutions have performed 1 833 tax audits in 2007, in which an additional 105,9 million lats were calculated to be paid to the budget.

The Number of Tax Audits and the Amounts Calculated Additionally in Tax Audits, million lats



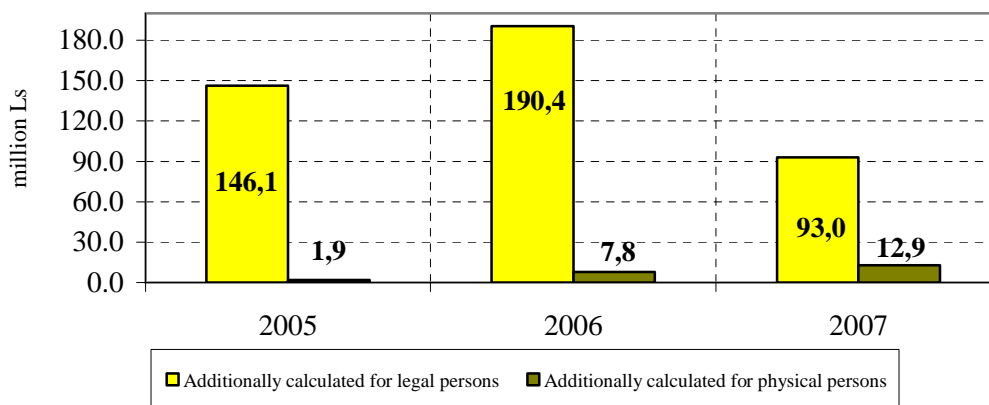
In 2007 there were 960 or 52 % tax audits of legal persons and 873 or 48 % tax audits of physical persons. Compared with previous years, a trend can be observed that the percentage of physical person tax audit of the total tax audit number is increasing every year.

The Number of Legal and Physical Person Tax Audits



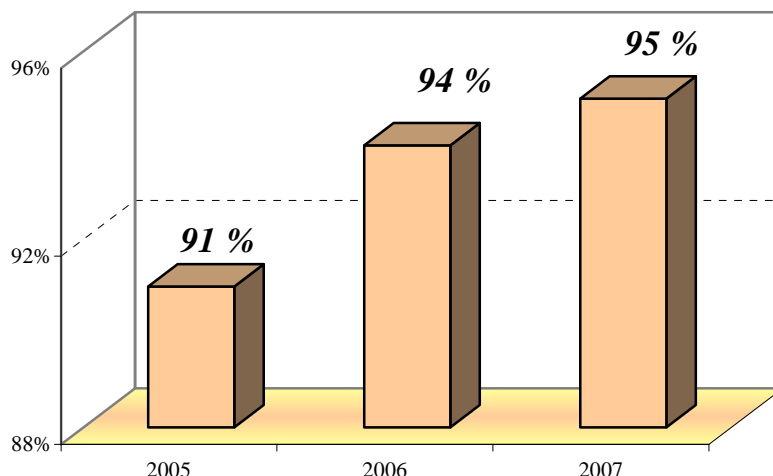
In 2007 93,0 million lats or 88 % of the total amount calculated in the tax audits were calculated during legal person tax audits and 12,9 million lats or 12 % have been calculated in physical person tax audits. The additionally calculated amount during tax audits for physical persons has increased by 5,1 million lats if compared with 2006.

Additionally Calculated for Legal and Physical Persons in Performed Tax Audits, million lats



1 733 tax audits or 95 % of the total number of tax audits performed in 2007 were positive, which is the highest effectiveness in the last three years (2006 – 94 %, 2005 – 91 %).

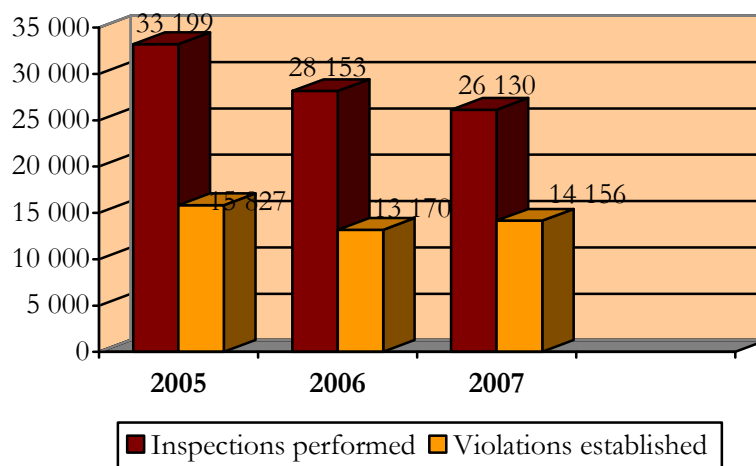
Effectiveness of Tax Audits



Thematic Inspections

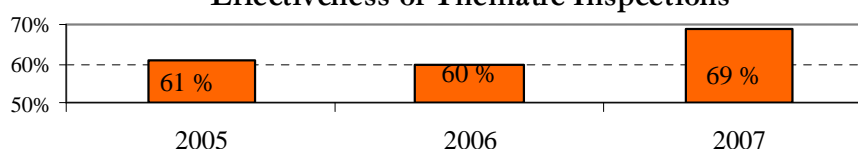
In 2007 the SRS institutions have performed a total of 26 130 thematic inspections. Since 2006, a particular attention was paid to the quality of thematic inspections and the work with the taxpayer - to explain the legal provisions of normative acts on established violations, so that the taxpayer could eliminate them and would prevent them in the future. As a result – a decrease in the number of thematic inspections was observed.

The Number of Thematic Inspections and Violations Detected



Effectiveness of thematic inspections was 69 % in 2007, which if compared with 2006 has increased by 9 % and compared with 2005 has increased by 8 %.

Effectiveness of Thematic Inspections



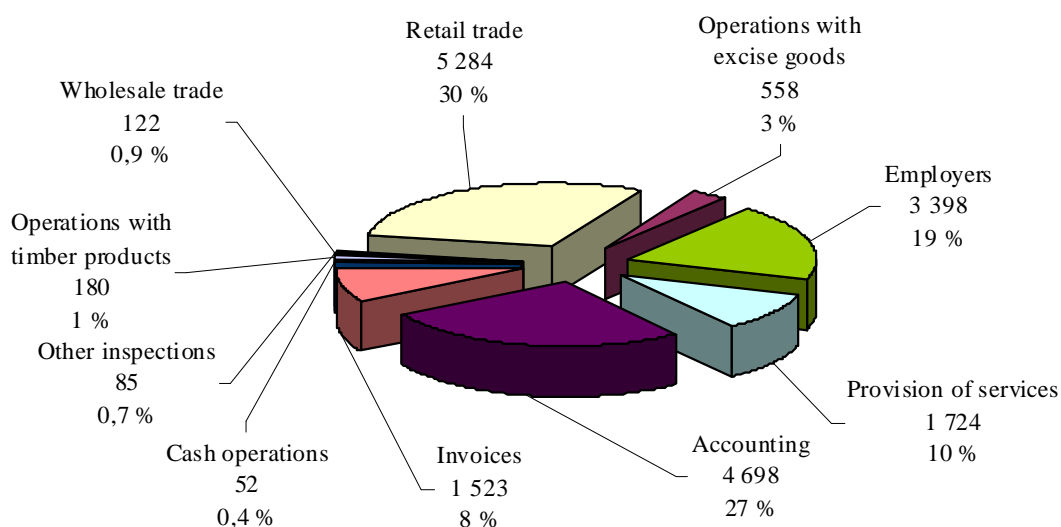
In 2007 for violations established during 6 359 thematic inspections a fine has been imposed according to the Latvian Administrative Violations Code in the amount of 588,2 thousand lats. The amount of imposed fine has increased by 10,8 thousand lats or 2 % if compared with 2006. In 2007 the average amount of fine imposed during the thematic inspections was 92 lats.

Period	Number of inspections, for violations in which the fine was imposed	Total amount of imposed fines (Ls tūkst.)	Average amount of an imposed fine (Ls)
2005	9 471	689,0	73
2006	7 477	577,4	77
2007	6 359	588,2	92

In 2007 thematic inspections by SRS institutions have most commonly focussed on the accounting of companies (9 772), employers (8 861), and retail trade (7 388). The highest increase in effectiveness of the theme most often inspected during the thematic inspections was for thematic inspections of the employers – 20 % increase compared with the previous year, while the effectiveness in the theme Retail Trade has increased by 9 %, and Accounting by 6 %.

The majority of violations are established during the retail inspections – 30 % of all established violations.

The Number of Violations Established during Thematic Inspections and Percentage in Comparison with Different Cases, 2007



In 4 698 cases or 48 % of the 9 772 performed company accounting inspections the SRS institutions have established that the accounting in the companies is not maintained according to the provisions of normative acts. In 1 652 cases fines have been imposed for established violations according to the Latvian Administrative Violations Code for a total of 166,6 thousand lats.

Employers were inspected with 8 861 inspections; the violations were established in 3 398 cases or 38 %. The most common violations established during these inspections in 2007:

- 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) the labour contracts with 1 456 employees have not been signed;
- 5) the information on employee movement has not been submitted to the SRS.

In 303 cases the fines have been imposed during the thematic inspections of the employers for established violations according to the Latvian Administrative Violations Code for a total of 130,2 thousand lats. The amount of fines has increased by 27 % if compared with 2006, when the imposed fines were 102,4 thousand lats.

The retail trade inspections were positive in 5 284 cases or 72 %.

The established violations were most often related to disregarding of stocktaking and invoicing procedure (2 094 cases), unregistered revenues (414), as well as the violations related to cash-register use:

- 1) cash-register journal is not kept according to the provisions of normative acts (2 192);
- 2) non-compliance with the provisions for cash-register use (1 923);
- 3) money amount in the cashbox of cash register does not match with the specified in the control printout (1 238);
- 4) non-issue of the EKA receipts or documents confirming the transaction (265).

In 2 608 cases the fines have been imposed during the retail trade inspections for established violations according to the Latvian Administrative Violations Code for a total of 140,4 thousand lats. The fine has been imposed in 49 % of cases, when the violations were established during the retail trade inspections.

Provision of services has been inspected during 5 492 thematic inspections; the violations have been established in 1 724 cases or 31 %. When inspecting this theme, it was established most often, in 707 cases, that the accounting and invoicing procedure of goods (services) is not complied with.

The attention is paid to compliance with the procedures for filling out, accounting, annulment, and storing of invoices. 3 732 such inspections were carried out; the violations have been established in 1 523 cases or 41 %.

1 870 inspections of operation with excise goods have been performed. While inspecting this theme, the violations have been established in 558 cases. Thematic inspection effectiveness is 30 %. It was mostly established, that the excise goods and invoice movement procedures is not complied with – 230 cases. In 246 cases the fines have been imposed for established violations according to the Latvian Administrative Violations Code for a total of 19,1 thousand lats.

Improvements to Tax Control Work

Information System for Support of Thematic Inspections (TPAIS)

Within the framework of *Phare* 2003 project “Improvement of the State Revenue Service Tax Control”, the Information System for Support of Thematic Inspections was created. The system ensures using of unified principles during the thematic inspection process, i.e., the planning and control of process, filling out the forms, as well as using Guidance Library, in which the information can be acquired electronically on the provisions of normative acts, the SRS methodological guidelines on the inspected theme, administrative practice, and the information prepared by the SRS information systems on a taxpayer, etc. TPAIS Pilot Project was implemented in 2007 in two of the SRS Regional offices. It is planned to implement the system completely in the SRS work by the end of 2008.

Physical Person Risk Analysis System (RASA)

In 22 February 2007 a contract between the SRS and the SC Exigen Services Latvia on the Development of Risk Analysis System for Control of Physical Persons. Physical Person Risk Analysis System will be used to perform prevention and control measures on physical persons: work with persons not submitting the declarations, persons not declaring the revenues, identifying of unregistered commercial activities, and selection for tax audit. It is planned to start the implementation of the system in the SRS work in 2009.

Computer software Estimation System in Construction eBIK

To increase the effectiveness of the taxpayer tax auditing process in the construction sector, as well as to provide the practical help to SRS institutions in the tax auditing of construction companies and construction contracting authorities, in the second half of 2007 the SRS has purchased a computer software Estimation System in Construction eBIK. The computer software is an electronic version of

construction work estimation system, which allows users to prepare approximate estimates using the construction work prices, which are included in the construction price catalogues and roughly match the prices of construction materials and building structures in Latvia, their transportation costs, the costs of technical equipment used in the construction, direct labour costs, administrative costs, and construction object costs, which are related to tax rates in force.

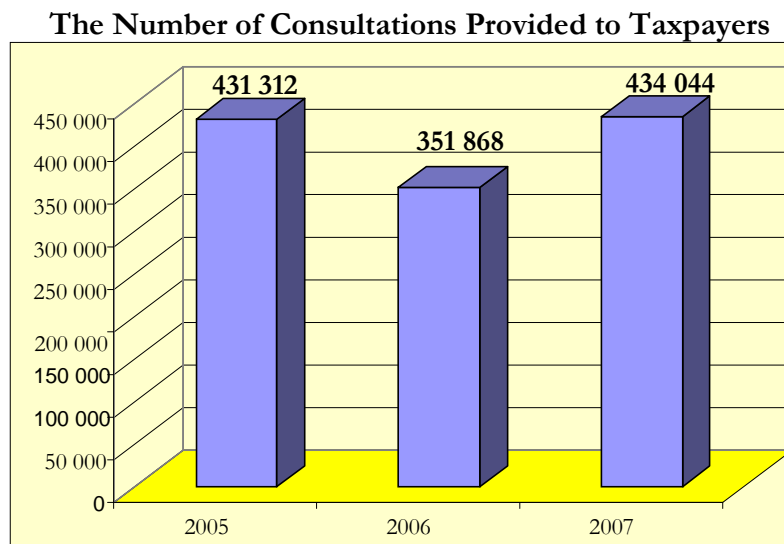
System DOMAINES

To improve the control of electronic commerce transactions, in October 2007 the SRS has purchased a system DOMAINES – a tool, which allows identifying the owner of the Internet web page, Internet connection address and its location, to retract the web page information about e-mail addresses, links to other addresses, phone numbers, possible web page developers, etc.

Consultation, Information, and Education of Taxpayers

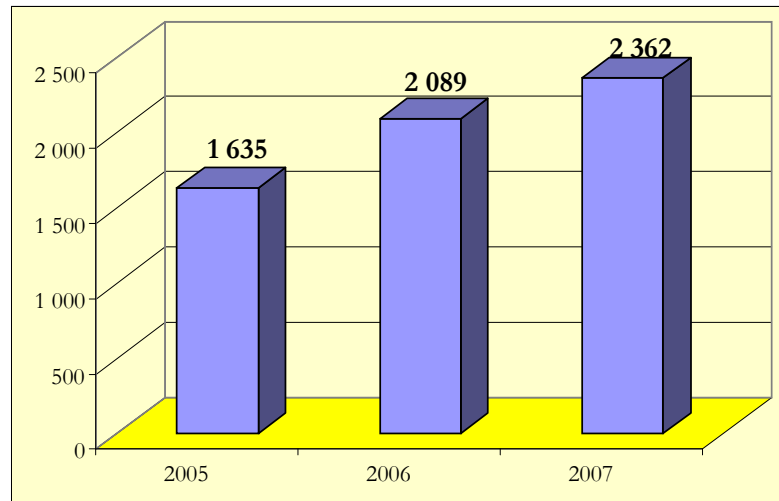
To implement the strategic goals of the SRS, in 2007 the SRS has performed an active consultation, information, and education of taxpayers.

In 2007 the SRS institutions have provided 434 044 consultations to taxpayers in the field of application of taxation normative acts, which is by 82 176 consultations (23,35 %) more than in 2006, and by 2 732 consultations (0,63 %) more than in 2005.



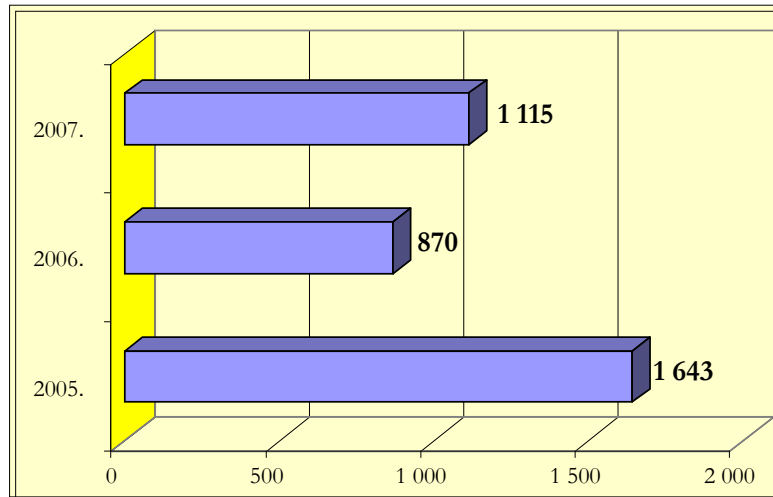
In 2007, SRS institutions have organized 2 362 educational events (seminars, discussions, lectures, etc.) on the application of taxation normative acts for taxpayers, non-governmental organizations, educational institutions, and other institutions. During the last three years the number of educational events has increased – in 2007, compared with 2006, by 273 (13,07 %) educational events, and compared with 2005 – by 727 (44,46 %) educational events.

The Number of Educational Events



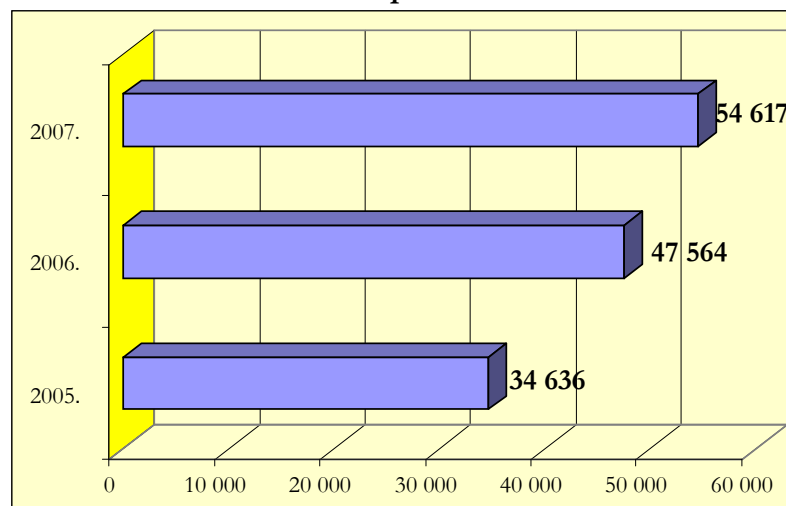
In 2007 the SRS Regional offices have organized 1 115 informational measures (publications in press, appeared in radio and television, etc.), which is by 245 measures (28,16 %) more than in 2006.

The Number of Informational Measures



In 2007 54 617 taxpayer calls have been answered on the centralized helpline on tax administration matters (phone number – 67211011), which is 7 053 (14,83 %) more calls than in 2006, and 19 981 more calls (57,69 %) than in 2005.

Answers Provided on the SRS Helpline on Tax Administration Matters



Electronic Declaration

Since March 2006, when the taxpayers could electronically submit their declarations, reports, and tax calculations to the SRS without submitting them in a written form, the number of SRS EDS users has increased by 1 000 users per month on average. By the end of 2007 the number of taxpayers registered in SRS EDS reached 36 200. In 2007, the number of taxpayers, who submitted declarations, reports and tax calculations electronically, have tripled, i.e., 23 900, and also the number of submitted documents have increased substantially. 865 495 documents have been submitted in 2007.

The taxpayers can not only submit the declarations and reports electronically, but also request the invoice numbers and register the ticket and receipt numbers electronically.

Since March 2007, a new functionality is available to the taxpayers registered in the SRS EDS to inform the users on their tax payment status. The possibility for the SRS EDS users to acquire information on tax payment status can be considered a substantial landmark in the development of the EDS, because it provides the information flow in the direction to the tax payer from the SRS. The usefulness of the service is confirmed by the interest shown by the users of SRS EDS, because this functionality has been used more than 10 000 times every month by the aforementioned system users. In 2007 a great deal of work has been invested to substantially broaden the range of offered informational services to the users of the SRS EDS. The information delivery to the SRS EDS users technically is accomplished by the sub-system of the SRS EDS – Taxpayers Data System, which enables to inform any authorized official of the taxpayer or a physical person about the tax payer data accumulated in the SRS databases.

CUSTOMS MATTERS

Dear Reader,

In 2007 the work of the SRS for implementation of customs policy has been conducted according to the set priorities.

The work on improving the customs informational systems and creation of new systems was continued, thus increasing the service level of customs and ensuring the fulfillment of the provisions included in normative acts of the European Union. Since the beginning of 2007 everyone has access to the new Integrated Tariff Management System available on the Internet, in which the information can be found easily and conveniently on tariff and non-tariff measures of the customs. In the spring of 2007 the State Holding Company Latvijas Dzelzceļš started filling out and submitting the electronic transit declarations to the commercial entity module of the New Computerized Transit System (NCTS), using the Railway Cargo Electronic Declaration System developed within the company, thus considerably decreasing the necessary time for filling out the electronic transit declaration. In 29 June 2008 the work was begun in the SRS Customs offices with a new information system – Export Control System, which enables performing the control of exit customs procedures using the electronic exchange of reports between all member states of the European Union. Considerable activities were also performed to improve the software of the Central Customs Informational System in 2007.

One of the most important tasks on the agenda of the SRS is improving the infrastructure of Eastern border customs checkpoints. According to the plan developed by the working group headed by the Minister of Transport and approved in the Cabinet of Ministers, in 2007 the SRS started the implementation of the project Reconstruction and Construction of Border Check Points on the External Borders of the European Union. The SRS planned modernization projects envisage enlargement of border checkpoints to increase cargo car throughput and improve technical equipment. In 2007 the development of projects for border check points Terehova, Grebneva and Vientuli took place, which are planned to be completed by the spring of 2008, so that afterwards the state procurements for border check points construction can be announced. Simultaneously, the issues of land transformation were dealt with, as well as the survey and evaluation of additionally needed lands was performed.

By strengthening and improving the cooperation with the customs office administrations of other countries, the management of Latvian Customs and the experts were holding regular meetings with colleagues both from the European Union member states and the Commonwealth of Independent States and other countries. Taking into account the importance of border crossing matters, which are to be solved together, in 2007 the meetings of officials from the Federal Customs Board of Russian Federation and Latvian Customs were held repeatedly both at management and expert level. Latvian representatives worked also in the working group of the European Union and Russia created in 2007 on the matters of border crossing.

In 2007 the management of Russian, Lithuanian and Ukrainian Customs services, and the Head of Customs Policy Directorate General of the Tax and Customs Union Directorate General of the European Community visited our country during working visits. The representatives of Latvian Customs actively continued their participation in business trips to provide technical assistance in the Commonwealth of Independent States and Balkan countries.

Work in customs is done purposefully and systematically according to the priorities of the European Union in the field of customs by implementing the projects, the implementation of which exceeds the limits of one calendar year, thus, when describing the primary activity directions, the started initiatives should be noted as the principal – gradual implementation of E-Customs projects, infrastructure modernization on the external borders of European Union, drafting of implementation provisions for the Modernized Customs Code. In 2008 the improving of cooperation with customs tax administrations of other European Union member states will continue in light of the 40th anniversary of the European Union Customs Union. The creation of specialized attaché on customs matters in the Russian Federation, in its turn, will create the preconditions for strengthening of cooperation in this region.

Here's to successful cooperation,

Director of SRS National Customs Board

A.Drulle

Ensuring Customs Payment Collection

305,58 million lats were collected in 2007 into the main budget from the customs tax and other tax payments administered by other customs institutions, which include the value added tax when releasing the goods into free circulation – 258 million lats, excise duty when importing goods for releasing into free circulation – 19,73 million lats, and customs tax – 27,85 million lats.

In the tax payments administered by customs institutions 50,54 million lats or 19,8 % more was collected in 2007 than in 2006.

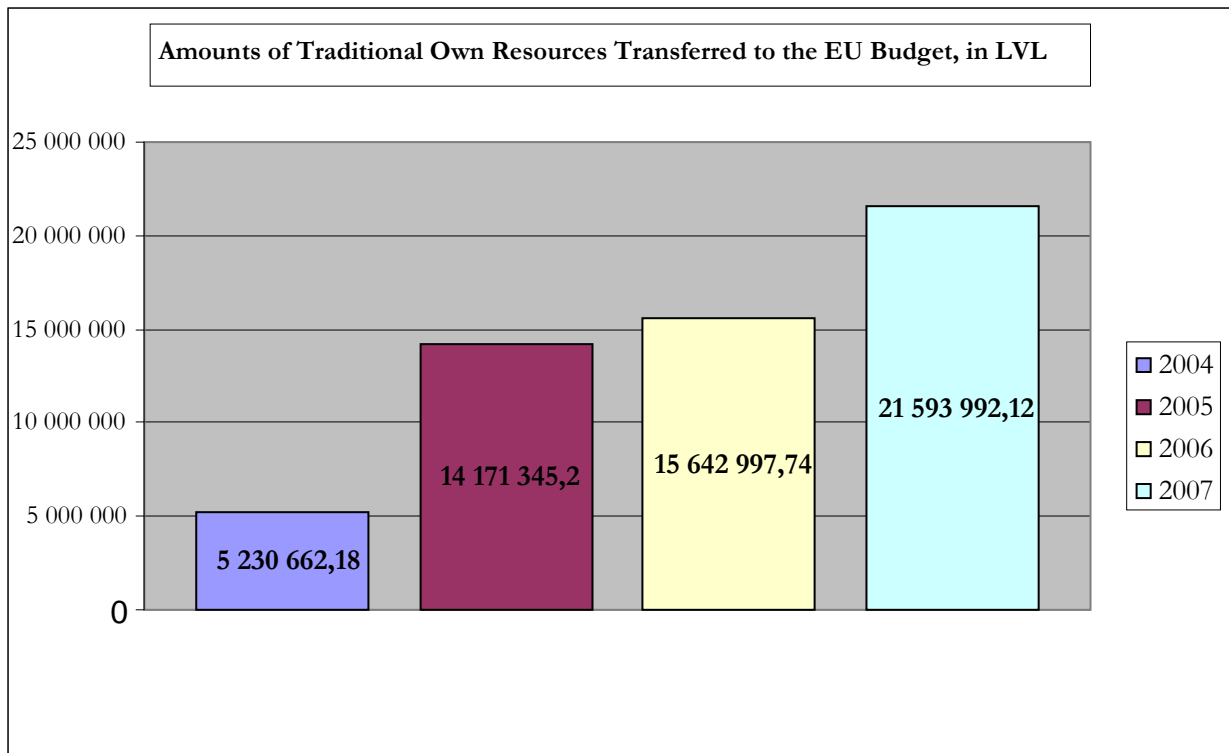
Type of taxes	Revenues (thousand lats)		Increase/decrease (2007 – 2006)	
	2006	2007	(thousand lats)	%
Value added tax when releasing the goods into free circulation	216 335,97	258 007,92	41 671,95	19,0 %
Excise duty when importing goods for releasing into free circulation	17 986,14	19 727,49	1 741,35	9,7 %
Customs tax	20 720,98	27 845,90	7 124,92	34,4 %
Total in state base budget	255 043,09	305 581,32	50 538,23	19,8 %

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 tax, 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 administration of traditional own resources, more than 21,59 million lats have been transferred to the European Community account of the Bank of Latvia, which is almost 5,95 million lats or 38 % more than in 2006 (15,64 million lats).



Administration of the European Union Tariff Quotas

In 2007 the entrepreneurs submitted a total of 332 customs tariff quota applications, 53 (16 %) of which – after the release of goods. In 312 cases (94 %) the requested tariff quotas were assigned in the amount of 100 %, in 6 cases (1,8 %) – partially assigned, and in 13 cases (2,6 %) a rejection was received due to exhaustion of the quotas applied for, and 1 case is related to issue of corrected quota application as a result of post-clearance inspection.

The number of tariff quota applications in 2007 has decreased significantly if compared with previous years (from 849 application in 2005 down to 332 application in 2007), which can be mainly explained by the fact, that previously the most commonly requested quotas for wines of Bulgarian and Romanian origin were no longer applied for in 2007, due to the accession of these countries into the European Union.

The quotas most commonly requested in 2007 were the tariff quotas set for foodstuff import. For example, 61 % of the total goods volume, for which the quotas were requested, consisted of fruits and nuts (mostly oranges of Egyptian origin), 21 % - fish and fish products (mainly herrings, mackerels of Norwegian origin, tuna of Thai and Philippine origin, and surimi from India and Vietnam), 14 % - fruit products (mostly orange juice of Mexican and Israeli origin and canned fruits and their products of South African origin).

Customs Audits

In 2007 a total of 318 customs audits were performed (87 customs audits of companies, 143 customs audits of transactions, 88 inspections of other type), as a result of which customs liabilities, the liabilities of taxes administered by other customs institutions, penalties, and the overdue debt was additionally calculated in the amount of 4,314 million lats, which is 0,95 million lats or 18 % less than in 2006.

Tax Liability Enforcement

In 2007 a total of 466 cases have been received for enforcement on a non-contestation basis for a total debt amount of 6,327 million lats. The delayed customs payments in the amount of 1,9 million lats were enforced as a result of the work by customs institutions, which is 0,086 million lats or 4,7 % more than in 2006.

Protection of Society

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

In 2007, 704 administrative offence statements on resolved violations of the customs regulations have been issued up by the employees of the Customs Regulations Prevention Units in the SRS Regional offices. The total amount of fines imposed according to the Latvian Administrative Violations Code on legal and physical persons exceeds 77,2 thousand lats.

As a result of physical inspections	2005	2006	2007
The number of issued administrative offence statements	785	694	704
Imposed fines (thousand lats)	78,45	76,64	77,22
Calculated fines (thousand lats)	79,60	100,39	68,35
The number of seizure cases	353	271	212

Protection of Intellectual Property

Customs employees have intercepted pirated goods and goods with counterfeit trademarks in 81 cases during 2007, which is 39 % less than in 2006, in which the counterfeit and pirated goods were found in 133 cases. Overall, 782 109 commodity units with counterfeit trademarks and pirated goods were intercepted during the accounting period; prevented losses to legal entities – approximately 2,1 million lats (in 2006 approximately 4 times less commodity units were intercepted, i.e., 184 557).

In 2007 the percentage of counterfeit mobile phones and car spare parts have increased if compared with previous years, during which the most common counterfeit goods were clothing, footwear, counterfeited cosmetics and perfumery. For the first time a cargo of foodstuffs (sweets) marked with a counterfeit trademark was confiscated.

Combating of Narcotic Substance Smuggling

In 2007, in cooperation with other state departments, the SRS dog handlers with their dogs have discovered narcotic and psychotropic substances in 20 cases.

In 2007 902,4493 grams of narcotic and psychotropic substances were found, including 10 cases – marijuana (843,6723 grams), 5 cases – hashish (42,7422 grams), 1 case – heroin (1,15 grams), and 2 cases – amphetamine (14,8848 grams), and also 995 pills of MDMA (3,4 – methylenedioxymethamphetamine).

In two cases as a result of customs check measures, the employees of the SRS have intercepted narcotic substances without the participation of trained dogs.

Control of the Goods of Strategic Importance and Dual Usage

25 violations related to illegal movement of goods of strategic importance and dual usage were uncovered, as a result of which 14 administrative offence statements have been issued (15 administrative offence statements in 2006), 9 of the administrative offence statements were issued in Riga, 3 administrative offence statements – in Kurzeme, and 2 administrative offence statements – in Latgale. In 3 cases the case materials and confiscated objects were submitted to Security Police and the criminal process was started.

Movement control of conventionally protected goods

In 2007 the customs employees have established 18 violations of the Washington Convention On International Trade in Endangered Species of Wild Fauna and Flora, which is 64 % more than in 2006, when 11 violations were established. 2 121 specimens of various protected species and products or items prepared from their components were confiscated from physical persons in 2007. Mostly the cosmetics containing bear fat and bile were confiscated in 2007. Cans with black roe, bottles with snakes placed in spirit, corals, and other goods were also confiscated.

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.

In 2007 the customs officials established two cases, in which physical persons tried to import cash (10 000 Euro or more) into the territory of the European Community without making a declaration while crossing the border of the Republic of Latvia.

Movement Control of Alcoholic Beverages in the Luggage of Individuals

In 19 July 2007 the amendments were made to the Article: Movement of goods and substances over the border of the Republic of Latvia, the circulation of which is prohibited or is specially regulated of the Criminal Law. According to the amendments, the alcoholic beverages and alcohol were included in the list of goods, for which the criminal liability is applied in case of an illegal movement across the borders of the Republic of Latvia.

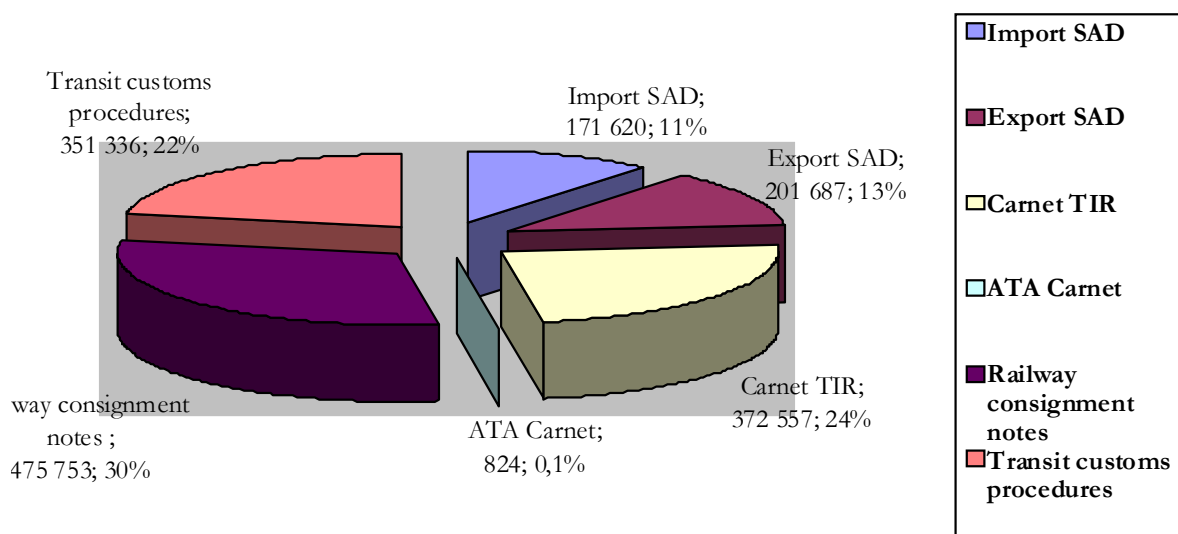
During the year in question, the signs of criminal offences were identified in 17 cases of personal actions in accordance with Article 190 of the Latvian Criminal Law – the illegal movement of alcohol and other alcoholic beverages across the state borders of the Republic of Latvia. In all cases the case materials were forwarded to the SRS Customs Criminal Board to take a decision on starting the criminal process.

Promotion of Trade

Processing of Customs Documentation

1 573 777 customs inspections were executed in the checkpoints of Customs offices of the SRS Regional offices in 2007, including 830 497 customs inspections started and 743 280 concluded . The number of started and concluded customs inspections has increased by 139 517 or 9,73 % compared with 2006.

**Customs procedures executed in 2007
(initiated and received)**



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 2007	The total number of granted legal forms (permits)
Recognized sender (customs procedure – transit)	68	82
Recognized recipient (customs procedure – transit)	74	84
Recognized importer	28	30
Recognized exporter	29	31

Dialogue with Commercial Entities

In 2007 the work was continued by the Customs and Trade Consultative Council. Representatives from professional unions and associations take active participation in its work, however representatives of certain commercial entities are given the opportunity to submit the questions to the secretariat of the Council, on which they would like to receive the opinion of experts during next scheduled meeting. Participation in the meetings of Customs and Trade Consultative Council by representatives from the Ministry of Finance provides the opportunity to discuss current topics in a wider context of promoting entrepreneurship. On a regular basis the Customs and Trade Consultative Council meetings are held by the SRS National Customs Board since May 2004. In 2007 the meetings took place once in a quarter.

Providing Consultations on General Customs Matters

21 119 consultations were provided on general customs matters in 2007, from which 14 535 consultations or 68,9 % were provided by the customs officials from the Legal Department of the SRS National Customs Board, while 6 584 consultations or 31,1 % 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 improve access to information for customs clients and thus promote the possibility to plan their work more efficiently since 13 June 2007 any person in Latvia and since 5 July – in Lithuania can acquire the information with the help of a mobile phone SMS on the truck queues and expected waiting time at the border checkpoints Terehovo and Grebnevo. Within almost six months – from 13 June to 31 December – more than 17 454 information requests SMSs were received, besides approximately one third of the information requests on queue size on Latvian and Russian border was from Lithuanian transport carriers.

The Most Important Customs Projects of 2007

In 2007 the implementation of *Schengen Facility* projects was finished. While implementing the project SRS/1/6 Increasing the efficiency of screening persons and their belongings on external borders, the technical equipment – communications devices, computer equipment, personal luggage x-ray machines, narcotic substance identification tests, etc. – was purchased to ensure the efficient and qualitative control on the external borders of the European Union. While implementing the project

SRS/2/7 Procurement of Sniffer Dogs, 20 sniffer dogs and dog cages were purchased. The training for purchased sniffer dogs and 2 trainers were performed.

The Automatic Identification System of Carriers and Containers (TLKAIS - AISCC) is introduced to strengthen the protection of the external borders of the European Union and to promote implementation of preventive measures directed at combating fraud; the system is designed to automatically identify and verify the containers and number plates of carriers and railways crossing the state border. TLKAIS is installed in 7 border check points on the external border of the European Union with the Russian Federation and Belarus, i.e., in the motor road border check points Terehovo, Grebnevo, Patarnieki, Silene and the railway border check points Indra, Zilupe, Karsava.

Within the framework of e-Customs project and in accordance with the provisions of European Union legal acts, the work with Export Control System (Phase 1 – linking the application software ECN+ with ASYCUDA++) was started at Latvian customs in 29 June. The work was done on implementation of national Export Control System in defining the user requirements and negotiating project deliveries. The issue of the certificate of Recognized Commercial Entity is ensured since 1 January 2008, as well as the Phase 1 of the Recognized Commercial Entity Information System is implemented.

Results of Control Measures

Physical Control

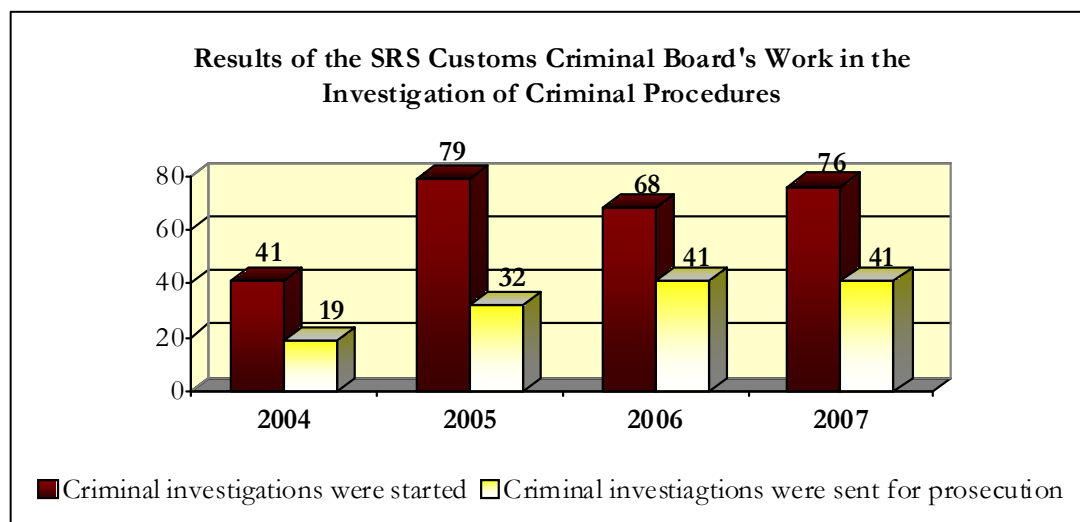
In 2007 the employees of the SRS Customs Criminal Board have performed a total of 481 inspections on the borders and inland. During the year of account, a total of 205 administrative offence statements were issued. As a result of protocol review, the penalties in amount of 14 800 lats were imposed; in 152 cases the property confiscation was applied. 235 600 units of cigarettes, 110,4 litres of fuel, 5 568 units of clothing, 2 076 units of various cosmetics and other goods were confiscated.

Investigation of Criminal Cases on Customs Offences

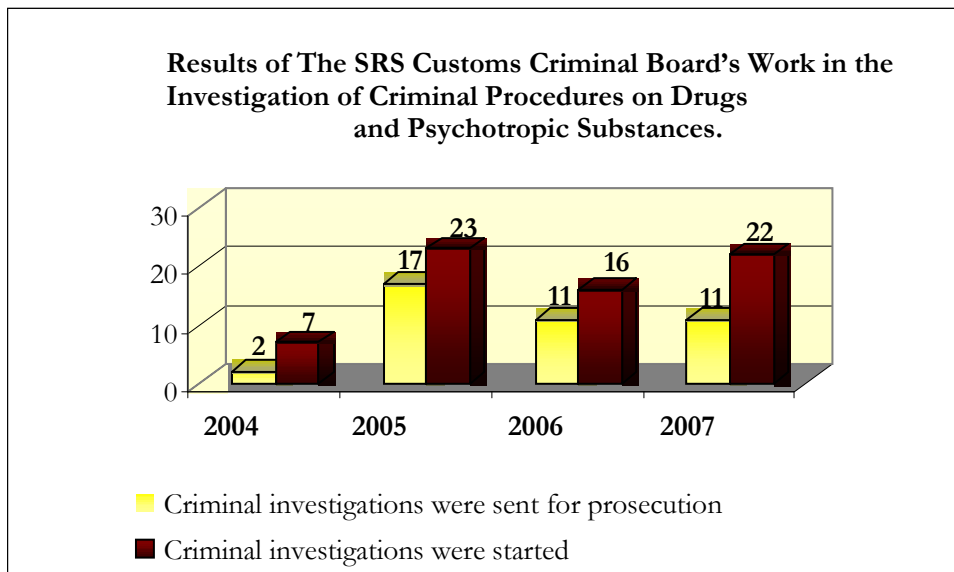
To discover and prevent customs offences the investigation of criminal cases and operational activities is performed by the employees of the SRS Customs Criminal Board.

In 2007 the SRS Customs Criminal Board organized and performed its activities according to the Smuggling prevention and combating strategy of the SRS Customs institutions. According to the tactical goals of the aforementioned strategy the drug smuggling, customs fraud, and combating of organized crime were set as the operational priorities for 2007.

Overall, the SRS Customs Criminal Board has started 76 criminal investigations in 2007, which is 8 criminal investigations more than in 2006, while 41 criminal investigations were sent for prosecution. There were 168 criminal investigations in the SRS Customs Criminal Board records as of 31 December 2007. VID Muitas krimināl pārvaldes darba rezultāti kriminālprocesu izmeklēšanā



22 criminal investigations on smuggling of narcotic and psychotropic substances were started by the SRS Customs Criminal Board in 2007. 11 criminal investigations on smuggling of narcotic and psychotropic substances were sent for prosecution.



In 2007 the SRS Customs Criminal Board successfully cooperated with the divisions of State Police to combat the drug distribution by planning the resources and operations as a result of which the combating of criminal group activities become more efficient. If as a result of measures performed together drugs and persons were detained inland, a criminal investigation was started by the State Police. If the persons and drugs were detained at the state boarder or on the roads in the vicinity of border – a criminal investigation was started by the SRS Customs Criminal Board. In 2007 more than 18 kilograms of various narcotic and psychotropic substances were removed from illegal circulation during joint operations with the State Police.

In the field of drug combating the SRS Customs Criminal Board is closely cooperating also with other institutions in Latvia and abroad, foreign customs offices and Europol. As a result of a successful operation in cooperation with Estonian Customs, an organized criminal group and 8 kilograms of cocaine were detained in Estonia.

The Narcotic and Psychotropic Substances Detained within the Criminal Investigations started by the SRS Customs Criminal Board

Detained Narcotic and Psychotropic substances	2006	2007
Amphetamine (grams)	5 093,737	
Pills containing Diazepam, Lorazepam (units)	30 381	
Pills containing Phentermine (units)	1 623	
Hashish (grams)	59,3428	36,053
Heroin (grams)		0,7889
Pills containing Chlordiazepoxide (units)	3 230	
Cocaine (grams)	103,2	4 004,79469
Poppy straws (grams)		450
Marijuana (grams)	31,3422	9,8736
MDMD pills (grams)		2 478,2177
Methamphetamine (grams)	2 925,783	
Substances that contain marijuana and heroin (grams)		0,3126

The Most Significant Criminal Investigations Started in 2007 on Smuggling of Narcotic and Psychotropic Substances

In April 2007, while patrolling the highway Bauska—Riga, the employees of the SRS Customs Criminal Board stopped a car *Mitsubishi* in the part of the road Kekava—Riga. After a more careful inspection, a package was found inside, which contained a particularly dangerous substance – dried poppy straws with a total weight 450 grams. In June 2007 a criminal investigation was sent to the Prosecutor's office on Customs matters for prosecution.

In July 2007, while performing the inspection on a ship, which had arrived at Liepaja port from Secina, the employees of the SRS Customs Criminal Board discovered narcotic substances – 19,1596 grams of hashish. The investigation is ongoing within the criminal case.

In October 2007, while applying control measures on Latvian – Lithuanian border, the employees of the SRS Customs Criminal Board in cooperation with other law enforcement institutions discovered concealed space in the body constructions of a vehicle *Audi A6*, in which 4 004,737 grams of cocaine was found, which also is the largest confiscated quantity of cocaine in the history of Latvian Customs operation, and 2 148,684 grams of psychotropic substances considered to be narcotic substances – MDMA (approximately 7 200 pills). In December 2007 the criminal investigation was sent to Prosecutor's office on Customs matters for prosecution.

In December 2007, while performing a physical inspection of a car on the road Riga-Ventspils, the employees of the SRS Customs Criminal Board discovered and seized 315 pills containing MDMA with a total weight of 90,055 grams. In December 2007 the criminal investigation was sent to Prosecutor's office on Customs matters to start the prosecution.



In October 2007 the drugs were discovered on Latvian – Lithuanian border – 2 148,684 grams of MDMA and 4 004,737 grams of cocaine

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 2007 in 15 cases the operation of crime groups was restricted as a result of activities performed by the SRS Customs Criminal Board. In 2006 there were 16 such cases.

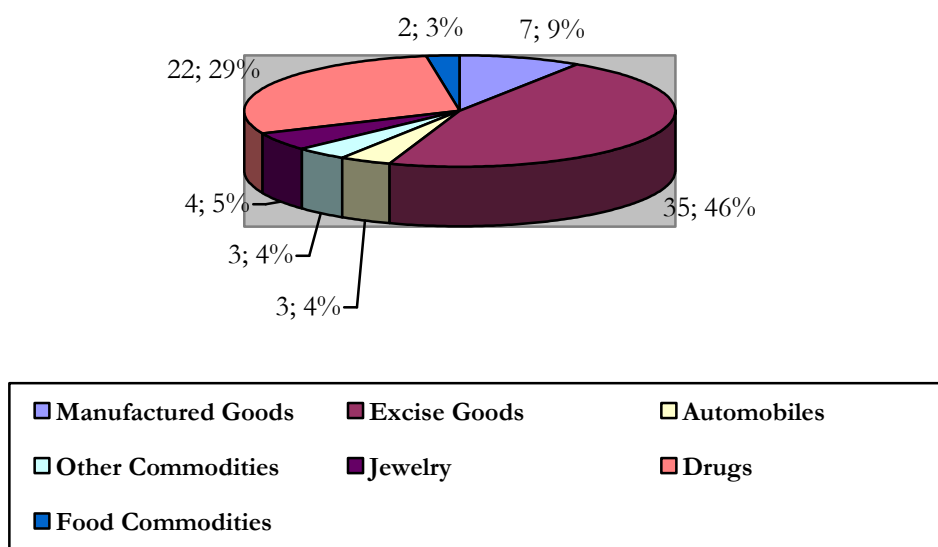
Compared to previous years in 2007 the number of criminal investigations started on excise goods (alcohol, tobacco products, and fuel) smuggling has increased significantly. Also the number of criminal investigations, which are started on smuggling of narcotic and psychotropic substances, has increased. In 2007 a new trend of precious metal smuggling has appeared – the SRS Customs Criminal Board has identified 4 such cases.

In 2007 the criminal investigations started within Customs Criminal Board:

1. on smuggling of excise goods (cigarettes, alcohol, fuel) – 35 criminal investigations;

2. on smuggling of narcotic and psychotropic substances – 22 criminal investigations;
3. on smuggling of precious metal products/valuables (precious metal bars and jewellery) – 4 criminal investigations;
4. on smuggling of manufactured goods (clothing, footwear, tobacco processing equipment, rubberoid, etc.) – 7 criminal investigations;
5. on car smuggling – 3 criminal investigations;
6. on smuggling of foodstuffs – 2 criminal investigations;
7. on illegal movement of other goods over the border of the Republic of Latvia – 3 criminal investigations.

Criminal Procedures Initiated in the SRS Customs Criminal Board by Groups of Commodities



In 2007 within the criminal investigations the SRS Customs Criminal Board has removed 285 313 units of various footwear, clothing and accessories, 16 878,78 grams of jewellery, 15 485,7 grams of precious metal bars, while the work done in combating smuggling of excise goods was particularly successful – within the criminal investigations different goods were seized - more than 32 million cigarettes (32 080 200 units), 2 547 litres of liquids containing alcohol, 2 901,1 litres of alcohol, as well as 62 railroad tank containers or 3 170 927 kg of petrol with the total value of lats 582 687,24.

The Goods Seized within the Criminal Investigations Started in 2007

Detained Goods	Quantity
Clothing, footwear and accessories	285 313 units
Alcohol	2 901,1 litres
Liquids containing alcohol	2 547 litres
Cigarettes	32 080 200 units
Petrol A 80	3 170 927 kg
Precious metal jewellery	16 878,78 grams
Various precious metal bars	15 485,7 grams
Manufactured ammunition	300 units
Anchor brushes for electric motors	1 599 units
Malt in beer cases	226,14 kg
Medication	142 units

The Most Significant Criminal Investigations Started in 2007

In the beginning of January 2007 a criminal investigation was started on the import of goods requiring customs clearance – tobacco processing equipment with a value of lats 104 297, in the customs territory of the Republic of Latvia using counterfeit documentation. The investigation is ongoing within the criminal case.

In March 2007 the employees of the SRS Customs Criminal Board performed an inspection of charcoal cargo, in the documentation of which as the sender was specified some company from Finland and the recipient – company from United Kingdom. During the inspection it was established that sacks, which should have contained charcoal, in fact contains cigarettes – a total of 594 480 units with a total customs value of lats 20 062. A criminal case was started on the established fact, the investigation of which is still ongoing.

In April 2007 a criminal investigation was started on the import into the customs territory of the Republic of Latvia a large quantity of goods requiring customs clearance by a citizen of Russia and hiding it from customs clearance – 1 900 000 cigarettes Jin Ling. The aforementioned fact was established when the vehicle *Scania* was weighed and the weighing-machine showed that the weigh of the vehicle exceeds the data specified in the accompanying documents. To perform a detailed inspection of the cargo, the cargo was unloaded completely and as a result the employees of the SRS discovered, that undeclared goods (1,9 million of brand JIN LING cigarettes with Russian excise duty stamps) are located under the packages of declared goods. In June 2007 the criminal investigation was sent for prosecution.

In June 2007 the SRS Customs Criminal Board started a criminal investigation on smuggling of 900 000 cigarettes with the cargo train in Ludza district Zilupe parish, which was performed by a group of persons on a preliminary agreement. In cooperation with Security Police the operational measures were undertaken during the investigation, during which it was established that three of the persons involved in the smuggling were former State Border Guard officials. Two of them were still working in the State Border Guard at the moment of incident and abused their authority and provided useful information to the smugglers on the control measures undertaken by the border guards in green border area. In September 2007 the criminal investigation was sent to Prosecutor's office on Customs matters for prosecution against ten persons.

In June 2007 the SRS Customs Criminal Board discovered an attempt to smuggle out 1 450 000 units of cigarettes Marlboro from the customs territory of the Republic of Latvia through the terminal Vecmilgravis with a truck by hiding them in the timber packages and using counterfeit documentation. A criminal case was started on the fact and the investigations are ongoing.

In June 2007 a criminal investigation was started on the large-scale smuggling of cigarettes. The fact was established in June 2007, when the employees of the SRS Criminal Board performed an inspection of a registered car Volvo with Czech number plates in the territory of Riga Trade Port. 5 786 000 cigarettes of brands Marlboro Filters and Marlboro Lights with a total value of lats 122 858,40 were found during the inspection of a sea container, which was located on the cargo mover with a trailer. The investigation into the criminal case is ongoing.

At the end of July 2007 the largest smuggling of cigarettes in 2007 was discovered, on which a criminal investigation was started on the smuggling of goods requiring customs clearance – 11 999 400 cigarettes Jin Ling and 199 600 cigarettes Sovereign King Size – into the customs territory of the Republic of Latvia through the customs check point Grebnevo with the car *Mercedes Benz* by hiding them from the customs check and using counterfeit customs and other documentation. Cigarettes with Russian excise goods stamps were placed in the trailer of the car hidden behind the packages of keramzite, which were laid on one layer in front of the boxes, which contained the aforementioned cigarettes. The criminal case was started on the fact, the investigation of which is ongoing.

In August 2007 the employees of the SRS Customs Criminal Board performed a fine-tooth comb inspection in the customs check point Vientuli on a car driven by a Lithuanian citizen, as a result of which in the front of the car concealed behind the glove compartment two bundles covered with adhesive tape were found, in which seven grey coloured metal objects of irregular form were found – 15 various metal bars. The expert's examination established that bars contain a number of precious metals – gold, silver, palladium, and other – with a total weight of 15 485,7 grams, the

approximate value of which was 80 000 USD according to the London precious metal exchange price in August 2007. In October 2007 the criminal investigation was sent for prosecution.

In September 2007 a criminal investigation was started on large-scale smuggling of precious metal jewellery by a Latvian citizen. Gold and silver jewellery with a total weight of 4 840,76 grams and total value of 82 231 USD were smuggled into the customs territory of the Republic of Latvia at the airport Riga without customs clearance and by hiding from customs control. In November 2007 the criminal investigation was sent for prosecution.

In October 2007 a criminal investigation was started on smuggling of cigarettes and also the storing of cigarettes in the customs territory of the Republic of Latvia without permission from customs institutions, which was performed by a group of persons on a preliminary agreement. At the end of October 2007 the employees of the SRS Customs Criminal Board performed an inspection on the truck located in Rezekne, a rented site of a company. During the inspection the hiding places were discovered in 32 wooden board palettes located in the trailer of the car, in which a total of almost 4,5 million cigarettes JING LING with Russian excise duty stamps were located. The cigarettes found in the car were smuggled into the customs territory of the Republic of Latvia from Russian Federation by hiding them from customs check and using counterfeit customs documentation. After the discovery of cigarettes located in the car, the wooden board palettes placed in the rented site were also inspected. Concealed places were found in 32 palettes, in which JIN LING cigarettes were also located. Within the criminal case a total of 8 935 540 cigarettes were seized and the investigation is ongoing.



The smuggling of precious metals discovered in August 2007 in the Customs Check Point Vientuli



The smuggled cargo of cigarettes (8 935 540 units) discovered in October 2007 in Rezekne



The discovered cargo of cigarettes (900 000 units) smuggled with a cargo train in Ludza district Zilupe parish in June 2007



The cargo of cigarettes (11 999 400 units) discovered at the end of July 2007 in Grebnevo

The Most Significant Projects Implemented and Started in 2007 in the Customs Field

In 2007 the active work was continued on creation of united risk information system for the needs of the SRS customs institutions – the Integrated Risk Information System (IRIS), which is created within the framework of the European Union *Phare* 2003 National program project No 2003/004-979-08-01 Integrated Tariff Management System and Risk Assessment. The purpose of the system is to provide the possibility for quality processing of significant information regarding violation of customs regulations and combating of smuggling and rational use of control resources available to customs service, at the same time increasing the effectiveness of control measures.

COMBATING FINANCIAL CRIMES

Dear Reader,

The SRS is collecting taxes by carrying out the tax administration (including tax control) functions defined in the normative acts, while the discovery and combating of crimes in the area of state revenues is done by using the investigative institution authority and special status of the SRS Financial Police Department, while at the same time there exists a close interrelationship between implementation of these functions.

Regardless of the basically different tasks and legal basis implemented by the Financial Police and tax administration both SRS structures have a common higher goal – to achieve that taxpayers would obey the taxation normative acts, to pay the taxes and other compulsory payments to the budget in full and on time as set by the law.

The Financial Police organizes the work according to the priorities set in the State Revenue Service strategy on prevention and discovery of crimes in the area of state revenues – combating of tax fraud, combating of proceeds from crime legalization, and combating organized crime.

The timely identification of crime groups, stopping their criminal activities, divesting the financial resources is performed using the intelligence model implemented in the Financial Police, and in a short period of time the collection of evidence within criminal investigations is provided as well as calling the guilty persons to criminal justice.

The reorganization was finished in 2007, the purpose of which was to eliminate the structural fragmentation of pre-trial investigation functions, to improve operational and analytical capacity. As a result of reorganization the optimisation was achieved in the performance of functions by the SRS Financial Police Department as defined in the law, more efficient combating of crimes in the area of state revenues, the intelligence model was implemented, and the reorganization of resources involved in the operational activities was completed.

Assessing the work done by the SRS Financial Police Department in 2007, it can be concluded that good results have been achieved in the improvement of operational results, crime combating and discovery.

In 2007 the number of criminal investigations on legalization of proceeds from crime sent for prosecution has increased significantly. During the investigation of criminal cases on fraud and Money Laundering the operation of organized crime groups was established in all cases. The tax payment avoidance is significantly hindered and decreased by working intensively on combating the organized crime groups, and the unfair entrepreneurs do not acquire the cash from fictitious company accounts, which then is used for various needs, for example, to buy exclusive properties, Envelope Salary payments, bribes, etc.

We will continue the active discovery and combating of tax payment avoidance, fraud, and organized crime. By combating and cutting down the tax fraud, legalization of proceeds from crime, and organized crime the financial interests of the European Union member states will be protected, the possible losses caused to Latvian and European Union budgets will be prevented, the tax fraud will be cut down in the country, as well as in the transactions of Latvian tax payers with the European Union member state and third country business partners, thus preventing exploitation of state financial system to legalize proceeds from crime, we will promote fair entrepreneurship and confidence of population in state authority and legislation.

By combating and cutting down the crimes in the area of state revenues, the aim is to stabilize the national economy, to decrease the losses done to state and European Union budget, to control the movement legitimacy of financial assets, to prevent channelling of assets to finance terrorism.

Here's to cooperation,
The Acting Director of the SRS Financial Police Department

L.Švecova

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 2007 a total of 856 criminal procedures were started in the SRS Financial Police Department, 306 of which were started on evading taxation, 25 criminal procedures were started on money laundering, 33 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.

Started and Received Criminal Procedures

	2007
Total number of started and received criminal procedures (criminal cases)	856
Started criminal procedures (criminal cases)	806
Including:*	
on evading taxation	306
on money laundering	25
on fraud	33
on other crimes	442
Received criminal procedures (criminal cases)	50
Fixed losses in started and received criminal procedures (criminal cases) (million lats)	42,6

* Taking into account the fact that one criminal procedure can be started for several articles of the Criminal Law, the number of criminal procedures mathematically added up by the type of crime can exceed the total number of criminal procedures specified in the table.

One of the main indicators characterizing the operation of the SRS Finance Police Department is the number of criminal procedures sent to start the prosecution. In 2007 21 criminal procedures on money laundering were sent to prosecutor's office to start the prosecution.

The increase in the number of criminal procedures sent to start the prosecution was caused by completing the reorganization of the SRS Financial Police Department in 2007 and the improvements to the organizational structure of criminal investigation performed within its framework, which provided the increase of investigative working capacity of the department.

Criminal Procedures Sent for Prosecution

	2007
Total number of criminal procedures sent for prosecution (criminal cases)	429
Including:*	
on evading taxation	65
on money laundering	21
on fraud	33
on other crimes	310
Fixed losses in the criminal procedures sent to start the prosecution (criminal cases) (million lats)	29,0

* Taking into account the fact that one criminal procedure can be started for several articles of the Criminal Law, the number of criminal procedures mathematically added up by the type of crime can exceed the total number of criminal procedures specified in the table.

The Losses to the Budget According to the Priorities in 2007

The losses to the budget in the criminal procedures sent to start the prosecution according to the Article 195 (money laundering)	lats 12 673 216,29
The losses to the budget in the criminal procedures sent to start the prosecution according to the Article 177 (fraud)	lats 537 239,65
The losses to the budget in the criminal procedures sent to start the prosecution according to the Article 218 (evading taxation)	lats 22 418 519

Combating Organised Crime

The operation of 12 organised crime groups was uncovered and stopped while performing the operational search measures and investigating the criminal procedures on fraud and Money Laundering; the activities of former caused substantial losses to the budget. In 2007 the guilt of persons involved in 6 of the identified organised crime groups was proved during the investigation and the criminal procedures were sent to the prosecutor's office to start the prosecution.

In 2007 as a work result of the SRS Finance Police Department the financial resources in the amount of lats 455 606,79 and EUR 966,16 were found with a ruling of the court to be proceeds from crime and confiscated, and transferred to the budget.

In 2007 as a work result of the SRS Finance Police Department the funds were arrested and detained in the amount of lats 3 431 986,90, EUR 1 364 992, and USD 87 808,19, the real estate was arrested with the value of lats 753 309.

Found with a ruling of the court to be proceeds from crime, confiscated and transferred to the budget	lats 455 606,79 EUR 966,16
Arrested and detained funds	lats 3 431 986,90 EUR 1 364 992,00 USD 87 808,19
The value of arrested real estate	lats 753 309
Organised crime group operation stopped	12
Prohibitions or arrests placed upon vehicles	8

Major Criminal Investigations:

1) In March 2007 a criminal investigation was sent to the Specialised Prosecutor's Office on Organised Crime and Other Branches to start the prosecution against a group of nine persons, which performed counterfeiting of documents, money laundering, and evading taxation using bogus companies, including Galaheds SIA, the operation of which caused damaged to the state in the amount of approximately lats 101 921,78;

2) In March 2007 a criminal investigation against Marina M. was sent to the Riga Zemgale District Prosecutor's Office to start the prosecution on personal income tax return fraud and a repeated attempt to defraud the personal income tax from the budget, thus causing losses to the state in the amount of lats 426,04;

3) In May 2007 a criminal investigation was sent to the Specialised Prosecutor's Office on Organised Crime and Other Branches to start the prosecution against Jevgenijs B. on illegal use of means of payment owned by somebody else, large-scale evading of taxation, and large-scale money laundering;

4) To apply the criminal scheme scores of bogus companies were used, which were registered to low-income persons. The companies NTK buvnieciba SIA and Erboserviss SIA involved in the scheme have not paid the VAT to the budget during the time period starting April 2003 until June 2005 (when the operation of companies was stopped by the SRS Finance Police Department) for a total amount which exceeds lats 1 000 000;

5) In July 2007 a criminal investigation was sent to the Specialised Prosecutor's Office on Organised Crime and Other Branches to start the prosecution against Kompreks SIA for tax evasion in the amount of lats 766 874,34 and Varluks SIA for tax evasion in the amount of lats 214 057,7, as well as for money laundering;

6) In August 2007 a criminal investigation was sent to the Specialised Prosecutor's Office on Organised Crime and Other Branches to start the prosecution on large-scale evasion of taxes defined by the law and the money laundering use the data and current account of Leten SIA and involving 30 companies into the crime scheme, as a result of which the losses were done to the budget in the amount of lats 1 160 459,93. It was raised to start the prosecution against 32 physical persons;

7) In September 2007 a criminal investigation was sent to the Specialised Prosecutor's Office on Organised Crime and Other Branches to start the prosecution against Grupa Media SIA on evasion of taxes and similar payments causing losses to the budget in the amount of lats 1 154 562,25 and on large-scale money laundering.

SUPERVISION OF EXCISE GOODS CIRCULATION

Dear Reader,

Nothing in the world is as cheap and as highly valued as politeness, said the great Spaniard Miguel de Cervantes. We have always considered our customers as highly valued guests and have treated them with respect. The doors of the Department are open for anyone – there are no special passes needed, nor multi-digit door code, there is no stern guard awaiting the customers at the entrance.

Almost all Latvians encounter the excise goods (fuel, alcohol, tobacco products etc.) in their everyday life, and the task of the Department is to make sure that these encounters are safe, the consumers are informed, would be able to receive the answers on questions important to them, and could execute their rights.

Have you ever purchased low-grade fuel or alcohol?

The SRS Excise Goods Department makes sure that such cases happen as rarely as possible by performing the preventive market supervision and control, while at the same time searching for new means to do it more efficiently.

For example, for fuel quality supervision the mobile fuel quality control express laboratories are used. Also in the field of tobacco products safe product supervision is implemented. The SRS Excise Goods Department is testing nicotine, tobacco levels, and carbon monoxide amount in the cigarettes of every trademark. The Excise Goods Department is one of the institutions, which controls the quality of alcoholic beverages and supervises, that alcoholic beverages would not be sold for takeaway during the night.

Are you informed that submission of the documents is becoming easier and easier?

To reduce the number of documents to be submitted in a paper form we have developed the Electronic Declaration System (EDS) software in 2007, which as of January 2008 will provide the commercial entities with the opportunity to enter, submit, and process 24 excise goods circulation reports using the electronic environment.

Of course it is rather troublesome to go to the SRS office every time to process the Accompanying Administrative Document (AAD) for excise goods. Soon there will be no need to worry about such inconvenience, because the work is being done on Excise Movement and Control System (EMCS) development and implementation. We organised several seminars to inform the commercial entities, in which we provide informational booklets and updated the section in the SRS web site. Excise Movement and Control System will become a united computerised system of all the EU member states, which will prepare the accompanying documents for excise goods electronically, and commercial entities will need to spend considerably less time with its implementation.

We are located in Riga, but we provide issue of licenses all around Latvia. Thus, for your convenience we invite you to fill out the necessary forms and submit the documents at the nearest SRS office, which will in return take care of delivering the documents to us.

The employees of the SRS Excise Goods Department are providing consultations to commercial entities and other customers every day both electronically, on the phone, and in person. You can take a look at the work results of the SRS Excise Goods Department, as well as the changes in the normative acts on the SRS Internet web site. If you have any questions, please contact our specialists.

Being aware of the fact that there are a lot of improvements to be done in our work we are trying become more accessible, listen to and take into consideration your opinion.

Here's to cooperation,

The Director of the SRS Excise Goods Department

A. Danilāns

Licensing

In 2007 the SRS Excise Goods Department has issued and reregistered 2 799 licenses and certificates for activities with excise goods. As of 31 December 2007 a total of 10 048 licenses and certificates were valid in the field of excise goods circulation, which is 50 licenses and certificates more than in previous year. Based on the data provided in the applications by commercial entities, the decisions were adopted on revocation of 574 licenses for commercial activities with excise goods. In 2007 214 licenses were revoked for violations of normative acts, while in 2006 those were 175 licenses.

In 2007 the SRS Excise Goods Department has issued and reregistered 307 excise tax guarantee certificates, which is by 15 % less than in 2006. It can be explained by the fact that as of 1 October 2005 the Cabinet of Ministers Regulations No.638 Regulations on Excise Tax Guarantees for Alcoholic Beverages, Tobacco and Petrol Products from 30 August 2006 are in force. Article 90 of the aforementioned regulations establishes that guarantee certificates, which were issued prior to coming into force of these regulations, shall be reregistered as of 1 February 2006 in accordance with the provisions of these regulations. This condition significantly increased the amount of issued and reregistered guarantee certificates, because the guarantee certificates, which were valid as of 1 February 2006, were also issued anew and or reregistered.

Review of the Licensing Operations in 2007

		Issued quantity	Revoked quantity		Suspended quantity as of 31.12.2007.	Valid quantity as of 31.12.2007.
			For regulation violations	Based on the application		
MT	Licenses for retail trade of alcoholic beverages	447	106	267	1	4 880
VT	Licenses for wholesale trade of alcoholic beverages	21	3	14	0	168
AM	Licenses for retail trade of beer	5	9	26	0	269
TV	Licenses for wholesale trade of tobacco products	5	1	8	0	42
TM	Licenses for retail trade of tobacco products	328	85	220	1	4 207
BM	Licenses for retail trade of petrol products	32	3	14	0	191
BV	Licenses for wholesale trade of petrol products	2	3	5	0	39
	Special permits (licenses) for operation as the excise goods warehouse holder	26	4	16	1	220
	Special permits (licenses) for operation as the approved trader	6	0	4	0	18
	Special permits (licenses) for operation as the excise duty payer representative	0	0	0	0	1

	Certificate for granting the status of independent small brewery	0	0	0	0	13
Total		872	214	574	3	10 048
	Reregister licenses	1 927				

Supervision

In 2007 officials of the SRS Excise Goods Department have performed 815 inspections in the area of excise goods circulation supervision and in 152 cases violations were established. Overall in 2007, the officials of the SRS Excise Goods Department reviewed and adopted decisions in 255 cases of administrative violations, including violations in cases, which are related to the excise goods circulation violations and were submitted by other institutions (the State Police, the SRS Riga Customs Regional Office, the SRS Customs Criminal Board etc.). As a result of reviewed and adopted decisions a penalty in the amount of lats 80 420 was imposed and 1 037 764 cigarettes, 6 421,64 litres of alcoholic beverages, 18 073 litres of petrol and 1 car were confiscated. In 2007 1 810 petrol samples were taken and the quality control was performed, in 5 cases the petrol was found to be non-compliant with the quality requirements.

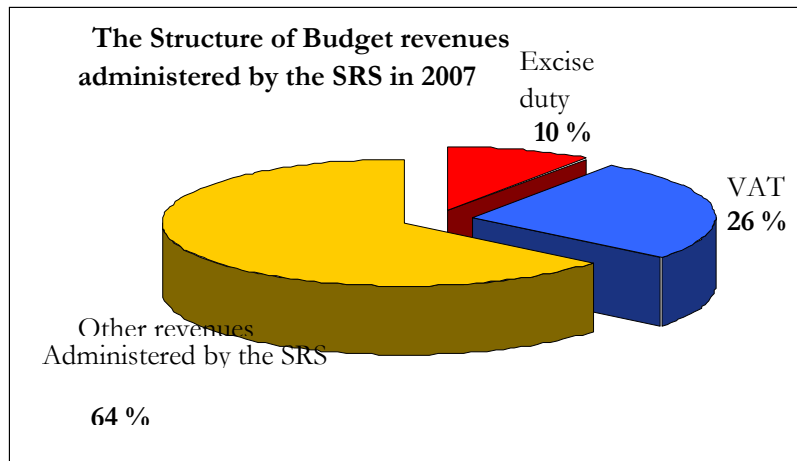
The SRS Excise Goods Department provides supervision over the function of the SRS Regional Office related to excise goods circulation and inland administration of excise duty for petrol products, its implementation, performs the methodical and consultation work, as well as performing of joint inspections together with the commercial entities, which perform operations with excise goods. Overall in 2007, 3 672 inspections were performed in the area of excise goods circulation supervision, 907 violations of normative acts were established and the penalty imposed in the amount of lats 87 900 resulted from the adopted decisions.

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

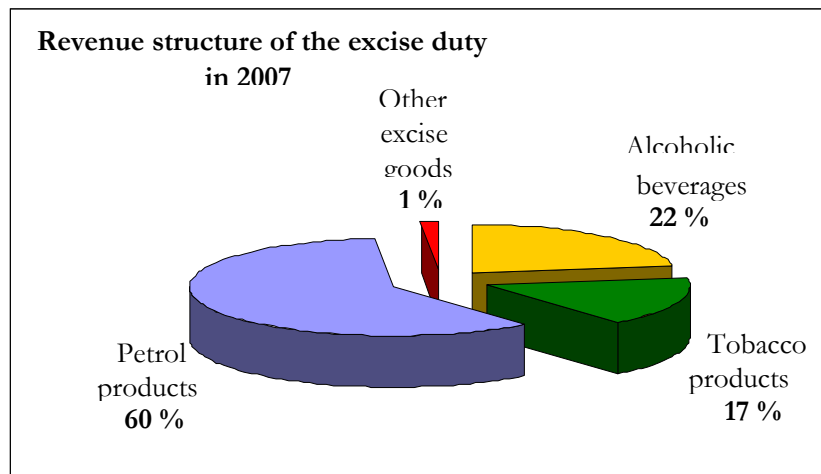
The SRS Excise Goods Department	2007	%
the number of performed inspections	815	
including:		
in the area of petrol products circulation	602	74 %
in the area of circulation of alcoholic beverages and tobacco products	213	26 %
Violations	152	
including:		
petrol products	25	17 %
alcoholic beverages and tobacco products	127	83 %
Adopted decisions	255	
including by other institutions	52	21 %
Imposed penalty in lats	80 420	
Confiscated*		
Petrol products in litres	18 073	
Alcohol in litres	6 422	
Tobacco products in units	1 037 764	
Car	1	

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

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



Total excise duty revenues to the budget in 2007 were 448 million lats, which is 22% more than in 2006.



The highest percentage (60 %) in the composition of excise duty revenues is formed by the revenue from petrol products – 267,4 million lats, which is 21 % more than in 2006. 100,4 million lats were collected for alcoholic beverages in 2007, an increase from the previous year by 22 %. The excise duty revenues for tobacco products exceed the tax collected in 2006 by 29 % thus reaching 74,2 million lats.

Issue of Excise Duty Stamps

In 2007 a total of 225 494 466 excise duty stamps were issued for labelling tobacco products, which is 16,6 % (45 million) less than in the previous year. In 2007 there has been a decrease of 36,2 % compared with 2006 in excise duty stamps issued for labelling cigarettes of domestic origin. The decrease in issued excise duty stamps for tobacco products can be accounted for the regulation of Law On Excise Tax, which prescribes that as of 1 January 2007 (in the wholesale trade) and as of 1 January 2008 (in the wholesale and the retail trade) in case of a tax increase, the stock-taking of the tobacco product stocks in the inventory must be performed on the date tax rate changes take place and the calculated amount of tax difference should be paid to the budget. Thus, prior to the increase of excise duty rates both in June and in December, the large amount of tobacco products were not released for free circulation, which was characteristics of previous years and the stocks of tobacco products were not created.

However, 138 246 985 excise duty stamps were issued for labelling of alcoholic beverages, which is 20,4 % more than in the previous year. The increase is accounted for by market trends and the overall increase in the consumption of both alcoholic beverages and tobacco products.

Review of Issued Excise Duty Stamps in 2007

Product Category	Recipients of Stamps	Quantity (units)
Alcoholic beverages	Holders of excise goods warehouses	138 186 037
	Importers	60 948
	Representatives of tax payers	0
	Total	138 246 985
Tobacco products	Holders of excise goods warehouses	224 027 576
	Importers	94 890
	Representatives of tax payers	1 372 000
	Total	225 494 466
Grand total		363 741 451

Improvements

To ensure the implementation of Excise Movement and Control System (EMCS) a number of specifications were elaborated in cooperation with the European Community and other European Union member states, several seminars were organised to inform the commercial entities, in which the information booklets were distributed, the section in the SRS web site was created and updated. An informational booklet on (EMCS) functional specification was prepared and electronically distributed; possible (EMCS) users are identified. The contractor for the state procurement Development and maintenance of the Excise Movement and Control System (EMCS) is identified; the signing procedure of the contract is started. The user requirements (EMCS) are prepared for commercial entity application and help desk application.

In 2007 the EDS software was developed in cooperation with SC *Exigen Services DATI*, the former of which provides the commercial entities with the opportunity to enter, submit, and process 24 excise goods circulation reports (Regulations of the Cabinet of Ministers No.662: The Excise Goods Circulation Procedure (Annexes 16 to 39) from 30 August 2005) using the EDS. Thus, an opportunity is provided for commercial entities to decrease the number of documents to be submitted in a written form to the SRS, which saves the resources both for commercial entities and for the state.

In 2007 changes to the design of excise goods duty stamps with additional safety elements were developed, approved, and implemented, and new design of excise goods duty stamps with additional safety elements were developed for tobacco products, which increase the protection capacity of legal market.

CONTROL OF THE OPERATION OF STATE OFFICIALS

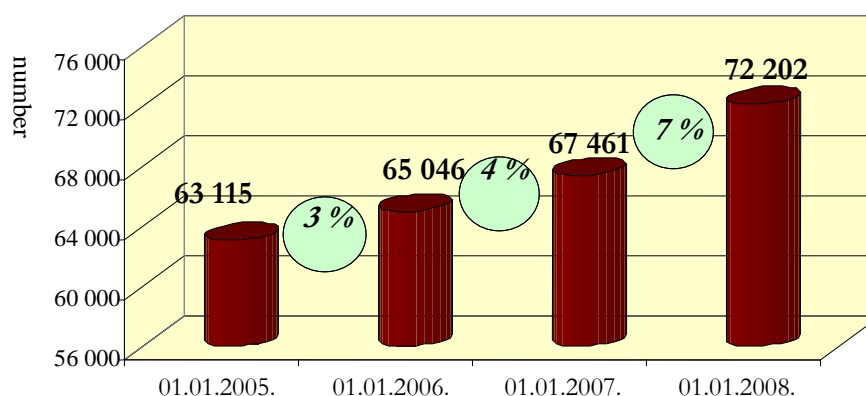
According to the Law: On prevention of the conflict of interest in the operation of state officials (hereinafter –Law) main tasks of the SRS State Officials Data Administration Department are to:

- 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 72 202 state officials registered as of 1 January 2008.

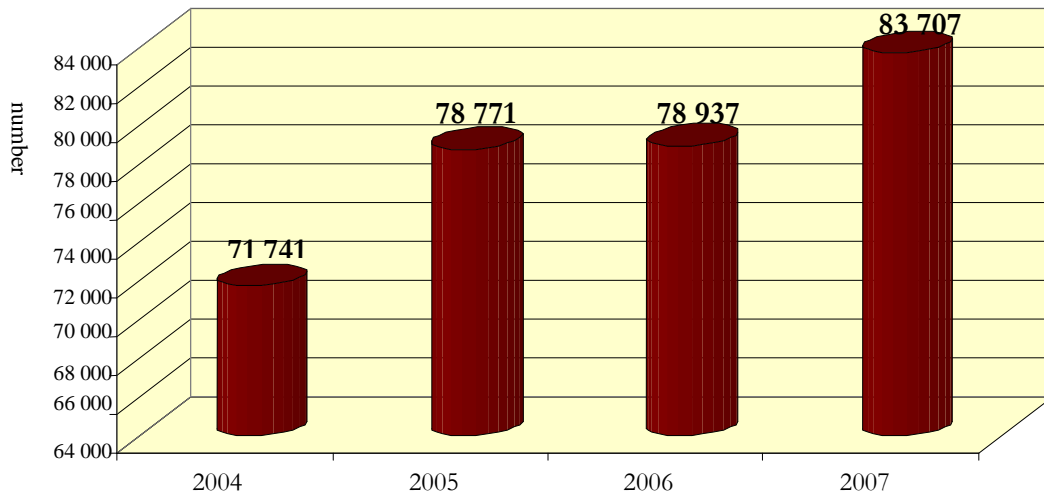
Number of State Officials



Reviewing the dynamics of the state official quantity we can conclude that significant increase has been observed in 2007, in which the number of state officials increased by 4 741 persons or 7 %. 66 % of the overall increase were civil servants of general and specialised civil service, as well as the state officials with special service ranks from the institutions of the Ministry of Interior system and the Latvian Prison Administration, 27 % - persons, which are considered to be state officials when issuing administrative, performing supervision, control, inquiry or punitive functions in the state and municipal institutions in regards to persons which are not under their direct or indirect supervision, and persons which are handling the property of the state or municipality, including financial resources, and 7% - other state officials.

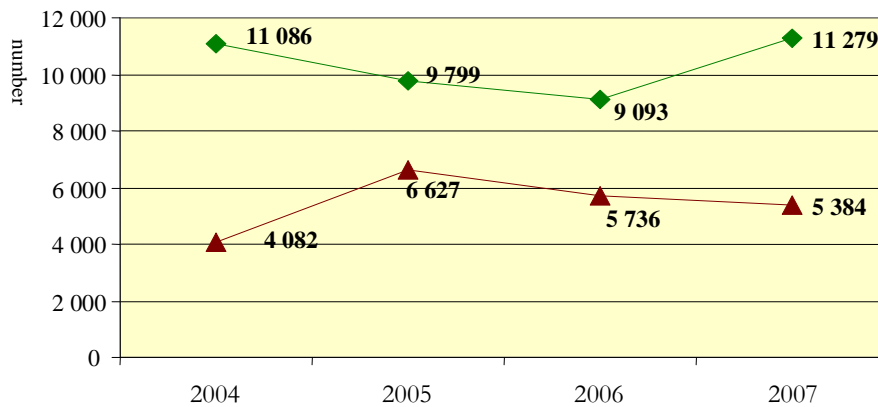
Overall, 83 707 state official declarations have been submitted to the SRS during the year, which is by 4 770 declarations or 6 % less than in 2006.

Number of Declarations Submitted by State Officials



The number of submitted declarations upon taking the state official's office and resigning from state official's office is shown in the graph. In 2007 it was 20 % of the submitted declaration quantity.

Number of Submitted Declarations Upon Taking or Resigning from the State Official's Office



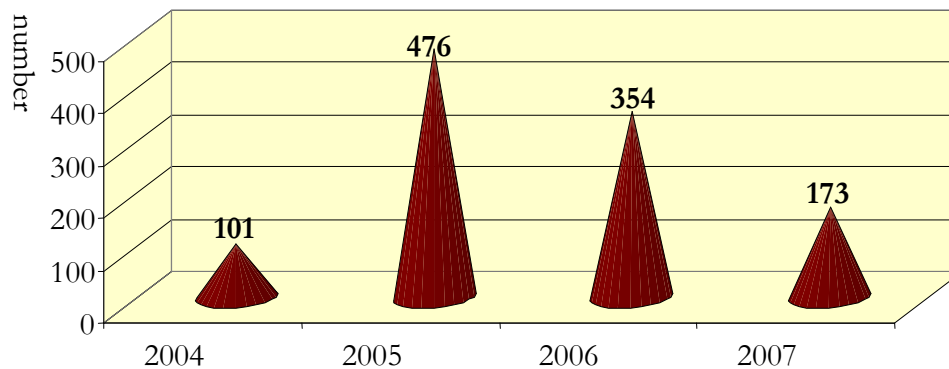
- ◆ Number of submitted declarations upon taking office
- ▲ Number of submitted declaration upon resigning from office

Established Violations and Penalties

In 2007 173 state officials were brought to administrative accountability for delayed submission of declaration, violation of the procedure for completing and submission of declarations and providing of false information, which are 181 persons or 51 % less than in 2006.

In the first quarters of 2006 and 2007 during the usual submission period for declarations of state officials, the employees of the SRS State Officials Data Administration Department have performed active consultation activities on interpretation of regulations of the Law, as well as reminded about the submission time-limits for state officials' declarations. Thus, the state officials have become more educated and the number of persons brought to administrative accountability has decreased.

State Officials Brought to Administrative Accountability (According to the Article 166²⁷ of the LAVC)

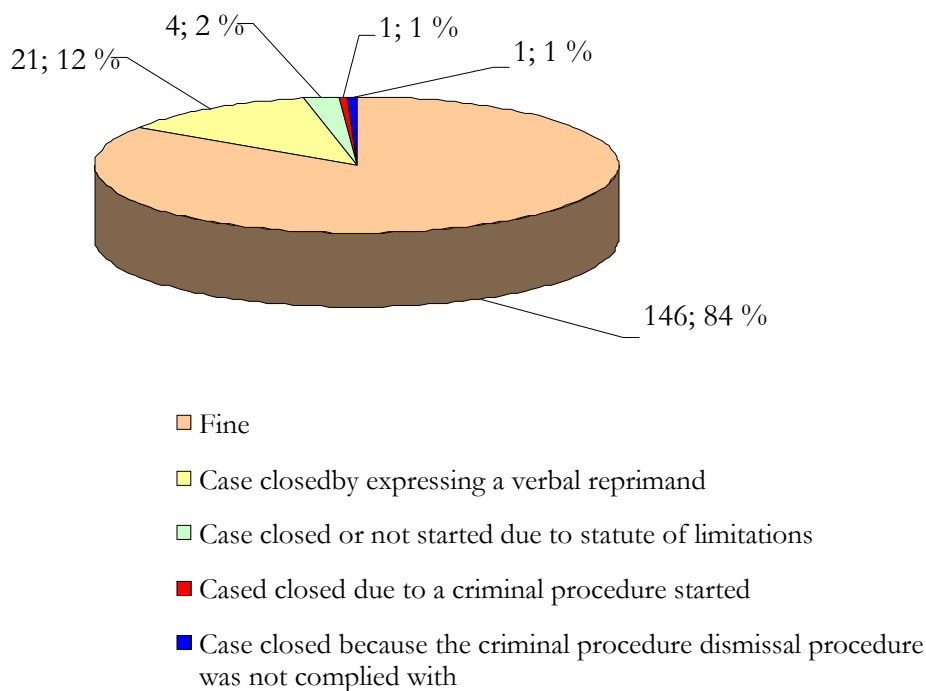


Out of the 173 state officials, which were brought to administrative accountability:

- 1) 146 state officials had a fine imposed on them;
- 2) 21 state officials have received a verbal reprimand;
- 3) a case on 1 state official was closed due to a criminal investigation being started;
- 4) a case on 1 state official was closed, because the criminal investigation dismissal procedure was not complied with;
- 5) cases on 4 state officials were closed or were not started due to statute of limitation.

A fine is the most commonly imposed type of penalty and is 84 % (total of lats 3 285) of the overall number of penalties.

Punished State Officials according to Article 166²⁷ of the LAVC



Case materials on 48 state officials were sent for reference to the SRS Finance Police Department, which are 54 state officials or 52,9 % less than in 2006. From total case materials 20 were sent for non-compliance with the state official declaration submission time-limits, while 28 – for providing of false information in the state official declarations.

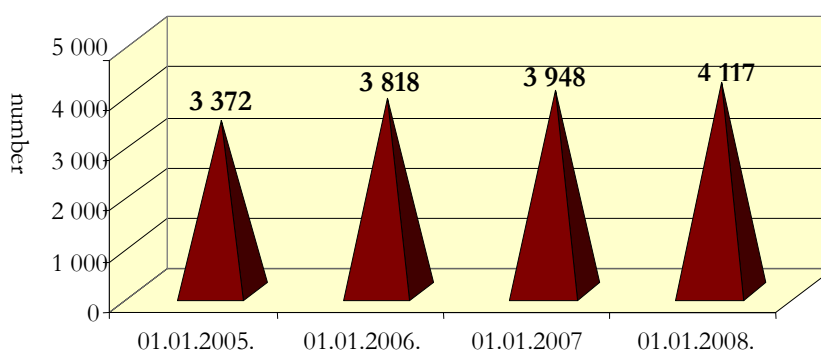
As the proceedings of these cases:

- 1) a criminal investigation was initiated against 13 state officials for avoiding the submission of state official declarations or for providing of false information in the state official declaration;
- 2) a criminal investigation was dismissed against 1 person;
- 3) the decision to refuse initiating of criminal investigation was adopted in 3 cases;
- 4) a decision was adopted by the SRS in 18 cases on applying the administrative penalty by imposing the fine, expressing a verbal reprimand, or dismissing the case due to statute of limitations;
- 5) the prosecutor's decision on dismissal of the criminal investigation in 1 case;
- 6) reference for 12 state officials is ongoing.

Control of State and Municipal Institutions

As of 1 January 2008 there were 4 117 state and municipal institutions, which submitted lists of state officials and their amendments, i.e., their number in 2007 has increased by 169 institutions or by 4,3 % compared to 2006. The number of institutions has increased due to creation of new institutions (schools, kindergartens, centres, funds, foundations, etc.), as well as by separation of regular divisions from the existing institutions.

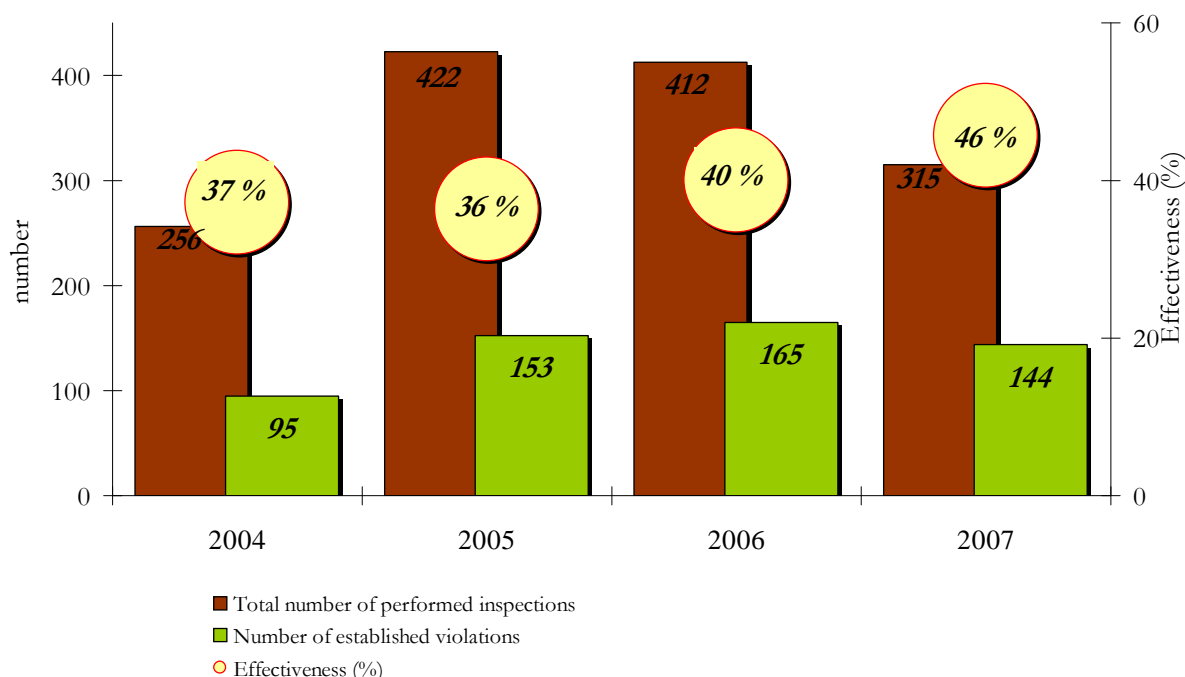
Number of State and Municipal Institutions, which Submit State Officials' Lists



Inspections and Established Violations

In 2007 315 inspections were performed on the compliance to the established procedure of state official lists and their amendments as submitted by heads of institutions. The number of inspections has decreased by 97 inspections or 23,5 % compared to 2006. Paying more attention to the planning of inspections their effectiveness has increased and has reached 46 % in 2007. 144 administrative violations were established during the performed inspections.

The number of performed inspections and established violations, their effectiveness (according to the Article 166³² of the LAVC)



For established violations for violating the submission procedure of state official lists and their amendments, as well as submission of incomplete lists:

- 1) 36 heads of institutions were fined (total of lats 1 840);
- 2) the cases against 39 heads of institutions was closed by expressing a verbal reprimand;
- 3) the cases were closed or not opened:
 - against 51 head due to statute of limitations;
 - against 1 head due to lack of evidence;
 - against 16 heads due to insignificance of the violation;

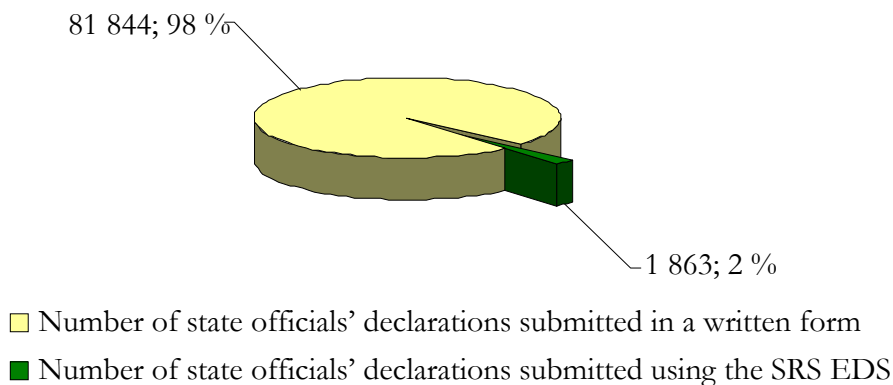
4) against 1 head the case was not initiated, because the person has passed away.

According to the Article 166.²⁷ (on state official declaration non-submission according to the specified time-limits) and the Article 166.³² (on state official list amendments non-submission according to the procedure) of the Administrative Violation Code of the Republic of Latvia, 3 state officials were brought to administrative accountability, two of them being fined for a total amount of lats 120 and expressing a verbal reprimand to 1 and closing the case.

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

In 2007 1 863 state officials' declarations were submitted using the SRS EDS, which is 2,2 % of the total number of submitted declarations.

Use of the SRS EDS for submission of state officials' declarations



The employees of the SRS have submitted 1 451 declarations electronically, which is 32 % of the total number of state officials in the SRS. In 2006 39 state officials' declarations were submitted electronically.

64 state officials' lists are submitted electronically, which is 1,6 % of state and municipal institutions (total of 211 lists were submitted). In 2006 15 state officials' lists were submitted to the SRS electronically.

Consultation, Informing and Educating State Officials

The divisions of the SRS State Officials Data Administration Department make a significant contribution by informing the state officials, as well as the heads of state and municipal institutions on application of Law regulations according to the authority of the SRS. In 2007 65 297 consultations (4 167 electronically, 18 915 by phone, 42 215 verbal) of state officials, heads of institutions and other interested persons were provided, which is by 12 638 consultations or 24 % more than in 2006.

Overall, 374 informational seminars, trainings or consultations were organised in the institutions on the matters related to application of the Law and promotion of the SRS EDS. 63 publications or other kind of information were provided in the newspapers or in the Internet, in 80 cases work was performed with the journalists, twice the information was provided in television, and once – in radio.

In 2007 the updated booklet 'The Regular State Officials' Declaration is to be Submitted by 1 April was prepared, printed and distributed, and it was supplemented with the information on submission of state officials' declaration using the SRS EDS.

The requirements of the Law and the liability for non-compliance are explained during the organised consultation events. Special attention is paid to the possibility offered by the SRS for electronic submission of state officials' declaration and state officials' list using the SRS EDS, i.e.,

signing its electronic version with the electronic signature. Thus, the emphasis is placed on the training of state officials which already began in 2006.

To promote the electronic submission of state officials' lists and declarations using the SRS EDS, as well as on the changes in the state officials' declaration form, and inaccuracies most often found during the practical completion of declaration:

1) consultations were provided in the SRS Zemgale, Vidzeme and Kurzeme Regional Offices for civil servants of Corruption Prevention Units;

2) consultations were provided to civil servants of the SRS Central Office – at the Internal Audit Department, the Personnel Management Department, and laboratory of the National Customs Board;

3) presentations were presented to the Members of the Parliament in the People's Party parliamentary group, Latvia's First Party/Latvia's Way party parliamentary group, Concord Centre parliamentary group, For Human Rights in a United Latvia parliamentary group; in State Chancellery – to State Secretaries of ministries and to Chiefs of Staff to ministers; In Saeima – to Members of the Parliament and the staff of Saeima Chancellery;

4) a presentation was presented at the director's meeting in the Ministry of Finance.

Four seminars (In Gulbene, Liepaja, Cesis and Riga) were organised for the heads of state and municipal institutions on the application of Law regulations according to the authority of the SRS, as well as on the opportunities and advantages of using the SRS EDS for submission of state officials' lists by showing a short film on how to prepare the list and submitted in practice. The representatives from Corruption Prevention and Combating Bureau participated in the seminars and provided the interpretation of Law regulations regarding the prevention of conflict of interests in state and municipal institutions, as well as providing information on professional ethics of state officials.

While organizing the seminar on application of Law regulations, the Administrative Department of Jekabpils municipality invited representatives of the SRS to provide information on liabilities provided in the Law on submission of state officials' lists and declarations, as well as the possibilities of the SRS EDS for submission of state officials' lists and declarations.

International Cooperation

In 2007 the SRS Corruption Prevention Department (since 2008 – the SRS State Officials Data Administration Department) was visited three times by representatives from other countries – Albania, Macedonia, and Montenegro. Representatives were introduced to the operation of the SRS and experience in the reception and control of state officials' declarations, the representatives were also provided with the information on development and improving of the Program for Prevention of Corruption Opportunities.

In April 2007 the Organization for Economic Cooperation and Development (OECD) organised a seminar Identification of Bribes for Tax Inspectors, in which representatives from the Baltic States participated. Latvian participants were representatives of the SRS Corruption Prevention Department.

In 9 – 10 October 2007 the SRS Corruption Prevention Department representatives participated in the international conference Corruption Prevention and Combating – Trends and Future Challenges organised by the Corruption Prevention and Combating Bureau, which was held on 5 year anniversary of creation of the Corruption Prevention and Combating Bureau.

PRE-COURT HEARING OF DISPUTES

In 2007 officials of the SRS Pre-Court hearing of Tax Disputes Division prepared 1 651 draft decisions adopted by the SRS Director General on hearing the complaints of tax payers (1 335 draft decisions were prepared in 2006), of which 432 draft decisions were in administrative violation cases (in 2006 – 443 draft decisions) and 1 219 draft decisions were in tax dispute cases (in 2006 – 892 draft decisions).

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

	2006	2007
Left unadjusted, including	599	429
the fine decreased at the same time	65	23
Cancelled	38	33
Cancelled partially, including	62	48
The fined decreased at the time	6	6
A new decision to be adopted/review the complaint	7	9
Decrease the fine	125	597
Not decrease the fine	25	81
The decision is adopted not to review the complaint	34	22
Instructed to perform audit	2	-
Total	892	1 219

According to the aforementioned data in tax dispute cases the decisions of the SRS Regional Office Directors were not amended with the decision made by the SRS Director General in 67,15 % cases in 2006, while in 2007 it was in 35,19 % cases, cancelled in 2006 – 4,26 %, while in 2007 – 2,71 %, partially cancelled in 2006 – 6,95 %, while in 2007 – 3,94 %. The number of decisions has decreased, according to which the fine additionally calculated after the inspection and to be paid to the budget by tax payers, i.e., in 2006 196 decisions were adopted in which the calculated fine to the tax payer was reduced, while in 2007 626 tax payers have had their fine reduced.

In 2006 one of the main reasons for cancellation of decisions adopted by the SRS Regional Office Directors in the tax dispute cases was the incorrectly applied regulations of normative acts (42 cases), as well as insufficient proof for drawing the respective conclusions (24 cases). However, in 2007 the main reasons for cancellation of decisions adopted by the SRS Regional Office Directors were insufficient proof for drawing the respective conclusions (29 cases) and incorrectly applied regulations of normative acts (27 cases).

In 2007 the SRS received tax payers' complaints on the decisions adopted by the SRS Regional Office Directors on tax matters, with which the additional payments to the budget in the amount of lats 48 248 263,69 were set for them, the losses were decreased by lats 1 275 094,28, the losses were increased by lats 5 851, the corporate income tax was decreased by lats 8 342,34 and the VAT was decreased by lats 49 827,93, while the declared accruals of physical persons were decreased by lats 4 631 446,56, VAT returns were denied in the amount of lats 2 589 863,53, and the excise duty returns denied in the amount of lats 39 679,22.

Tax payers disputed the payments to be additionally paid to the budget in the amount of lats 41 443 996,81 (85,9 % of the additionally calculated amount in disputed decisions), non-return of VAT overpayments in the amount of lats 2 587 667,79 (99,91 % of the denied return amount), while the excise duty non-return was disputed in full amount by the tax payers.

Reviewing the case materials the decisions were adopted, according to which the decisions adopted by the SRS Regional Office Directors were cancelled in the amount of lats 10 326 526,14 in payments (24,92 % of the disputed amount). At the same time during the dispute process the additional lats 388 219,12 were prescribed in payments to the budget. The SRS Director General reviewed 730 appeals of tax payers to decrease the fine additionally calculated after the inspection in payments to the budget and adopted decisions to decrease the payments additionally calculated after the inspection in payments to the budget according to the Article 33.³ or Article 91 of the transition

rules of the Law On Taxes and Duties in 626 cases in the amount of lats 2 416 083,5, while in 104 cases the tax payers' appeal to decrease the fine additionally calculated after the inspection in payments to the budget was denied.

In 2007 the personal income tax, corporate income tax, and value added tax payments to the budget calculated after the inspection were disputed most of all. The disputed tax amount is 10,81 % (lats 4 478 530,92), 7,55 % (lats 3 127 369,93), and 26,25 % (lats 10 881 257,39) of the total amount of all disputed payments, respectively.

In 2007 the SRS Director General has signed 73 agreement contracts with tax payers (73 agreement contracts were signed in 2006 as well) according to the Article 41 of the Law On Taxes and Duties cancelling the fines additionally calculated after the inspection in payments to the budget in the amount of lats 891 962,11.

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

	2006	2007
Left unchanged	346	271
Cancelled, the case sent for new hearing	61	50
Cancelled, the case closed	24	28
Appeal left without hearing	4	5
Amended the fine amount	6	13
Cancelled by expressing verbal reprimand	-	63
Assign status of third party	2	2
Total	443	432

According to the aforementioned data in administrative violations cases the decisions of the SRS Regional Office Directors were not amended with the decision made by the SRS Director General in 78,1 % cases in 2006, while in 2007 it was in 62,73 % cases, cancelled by sending the case for new hearing, in 2006 – 13,77 %, while in 2007 – 11,57 %, cancelled by closing the case, in 2006 – 5,42 %, while in 2007 – 6,48 %.

In 2007 the SRS Director General closed the cases on insignificant administrative violation cases with 63 decisions by evaluating the case materials and expressing a verbal reprimand, thus cancelling the fines imposed with the decisions of the SRS officials.

In 2007 in the 432 decisions adopted by officials of the SRS Regional Offices in the administrative violation cases the fines in the amount of lats 150 724,39 were imposed upon offenders.

In 271 cases the decisions adopted by officials of the SRS Regional Offices were not amended in the administrative violation cases after the SRS Director General had reviewed the particular cases and adopted the decisions (the fine imposed to the offenders - lats 110 090,6), in 50 cases – cancelled by sending the case for new hearing (imposed fine - lats 12 696,04), in 28 cases – cancelled by closing the administrative violation case (imposed fine - lats 6 775,58), 5 appeals were not reviewed (imposed fine - lats 1 730), in 13 cases the imposed fine amount was amended (the imposed fine of lats 6 860,17 was reduced to lats 3 160,17), in 63 – cancelled by expressing a verbal reprimand (imposed fines - lats 12 572), while in 2 cases the decision to grant the status of third party was adopted.

STRATEGIC DEVELOPMENT

The SRS Development Strategy for 2007 – 2009 was approved

At the end of 2006 the SRS team, in partnership, had completed a huge work on development of common SRS development strategy for 2007 – 2009. At the beginning of 2007 it was approved by the SRS Council, and in 6 March it was signed by Oskars Spurdzins, the Minister of Finance.

The SRS development strategy is a modern SRS development document, which contains the mission of the SRS and describes the medium-term priorities and development directions of the SRS. Currently, the SRS development vision is customer-oriented and a competitive State Revenue Service in the European Union. The implementation instrument for the SRS development strategy is the action plan. It includes more than 150 specific tasks, which are divided in four main goals – 1) voluntary fulfilment of liabilities; 2) enabling fair environment for commercial activities; 3) safest border of the European Union; 4) internal efficiency. Large part of the SRS development strategy and its implementation action plan tasks and measures are directly related to servicing the customers.

Since the strategy was prepared in a large team by involving the representatives and experts of all SRS operation areas, the SRS staff has expressed their satisfaction with this document. It was confirmed by the internal express survey on recognition of the SRS development strategy performed at the end of the year. The majority of the SRS employees have approved the contents of development strategy, layout, and means of presentation. Thus, we can say that we have placed a good foundation for development of strategic planning in the SRS during the year 2007.

We invite you to become acquainted with the strategy – it is available in the section About Us of the SRS web site www.vid.gov.lv under → Strategies and Plans.



To make an integrated assessment, which would be comparable over time, of the progress of in all activity areas of the Service towards achieving the vision and goals of the SRS development

strategy, at the second half of the year the SRS created a unified methodology to analyse the fulfilment of the strategy.

Performance Indicators for First Nine Months of 2007



1	critically behind schedule
1-2	significantly behind schedule
2-3	slightly behind schedule
3-4	on schedule
4-5	results exceed schedule

2007 Research on Customer Satisfaction with SRS

In 2007 the SRS adopted a new culture for performing research. At the end of 2006 a concept of extensive and detailed research on customer satisfaction with SRS emerged. The concept was closely related to the work with the SRS development strategy. It was planned that the customer satisfaction research results would at same time show how well the SRS development strategy was being implemented.

In March 2007 the SRS customer satisfaction research was started. Scheduled gains from the research were the possibilities to improve the quality of provided services, client servicing culture, and to promote creation of a positive image of the SRS in society. In cooperation with students attracted by various Latvian higher educational institutions a face-to-face survey of the SRS customers was performed all around Latvia. Opinions of more than two thousand SRS customers were summarised during the research. The number of research respondents was large for Latvian and even European research scale – 2 017 valid questionnaires.

It was concluded from the performed research that the most satisfied with the operation of the SRS in 2007 were state companies, while the least satisfied – state officials. The highest valued was the competency level of the SRS staff and several of the services provided by the SRS, while the least valued – quality of client servicing, information and education events, and technical coverage and work organization of the client servicing halls, including the waiting time.

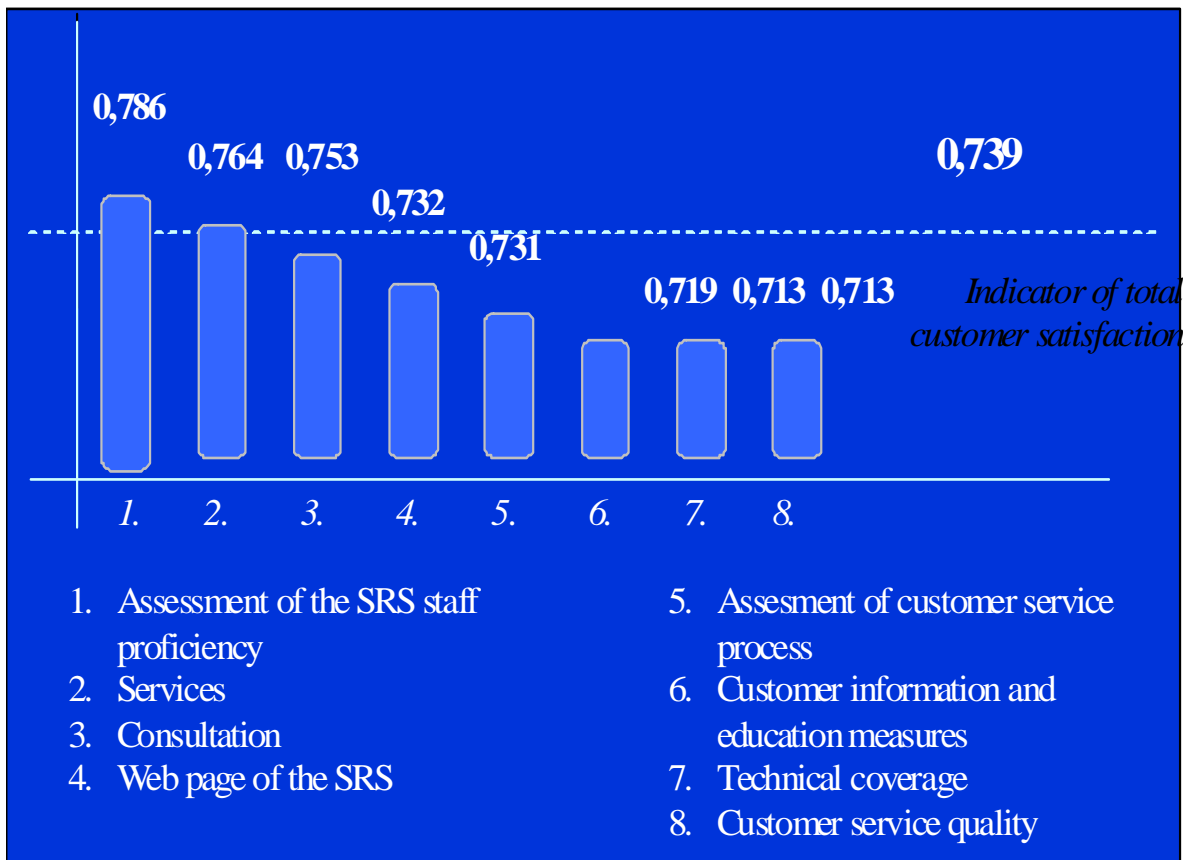
The research results also confirmed that the strategy direction chosen at the beginning of the year at improving the customer service was the right decision.

After the preparation and formatting of research we sent it to our partners, who helped in creation of the research – mostly in academic circles and state administration. We were satisfied with their positive opinions on the performed research. Since the SRS in the pursuit of its vision of a customer-oriented state administration institution will perform the researches on regular basis to assess the customer satisfaction, it will continue cooperating with the higher educational institutions of Latvia in the upcoming researches. This research showed that the SRS can perform the upcoming researches professionally using internal resources and cooperating with representatives of the science field.

This research proves that they are very important, because the existence of a satisfied customer and improvement of customer service as an element of strategic planning for the organization have become integral, crucial prerequisites not only for existence of small and large organizations in the private sector, but also for public administration institutions. Additionally, the customer service and efficient strategic planning is still a topical and improvable process in the public administrations of the Baltic States and around Europe, and it considered a good governance practice and create a healthy competition within state administration. A lot of institutions are interested in experience exchange, studying of new ideas, and methodology and results of performed researches in this field.

The SRS customer satisfaction research for 2007 is published in the web site of SRS www.vid.gov.lv under the section About Us → Researches.

Customer Satisfaction assessments



Activities to Improve Customer Satisfaction

To firmly focus on one of the main SRS priorities – improving customer service, following the research on customer satisfaction the SRS performed a structured summarization of problems and weak points in the area of SRS customer service, as well as it formulated 20 measures to be performed for solving the problems.

The most important of those are:

- 1) to develop the collection of measures for strengthening and improvement of the SRS image;
- 2) to differentiate working hours of the SRS customer service centres according to the needs of the SRS customers;
- 3) to define the services offered by the SRS more precisely;
- 4) to develop a customer service standard - united, short, clear, and easy to perceive;
- 5) to implement complaint and suggestion management system and to provide receiving of feedback from the customers;
- 6) to service customers according to the customer target groups;
- 7) to develop a standardised and harmonised visual and functional design of the SRS customer servicing halls;
- 8) to expand the range of e-services provided by the SRS and to improve their quality.

The implementation of these activities will improve the quality of services and the servicing culture according to the requirements of the customers and will increase the customer satisfaction level. All activities are tightly related to the SRS customer satisfaction research results for 2007 and are aimed at solving the servicing problems identified in the research, and they are founded in the goals and tasks of the SRS development strategy in the area of improving the customer service. Such a structured and tight bond will help to perform focused and stable improvement of the customer service both by creating the common image of the SRS and the visual and functional standard of the SRS servicing halls. A notable fact is that for implementation of 11 out of 20 activities there is no need for additional financing.

Participation in the Project www.latvija.lv

In 2007 the SRS engaged in the project www.latvija.lv organised by the Secretariat of Special Assignments Minister for Electronic Government Affairs, the purpose of the former is to provide access for the Latvian and foreign population to the Internet resources of Latvian state institutions and a centralised access to the electronic services provided by various institutions. The SRS is offering its services in this portal to the SRS customers for easier meeting of liabilities – the EDS, various forms. Even though there is a lot to be done it still is a new communications channel that customers can choose. The SRS will continue offering new options and means for easier and more agreeable meeting of their tax and customs liabilities to the state.

INTERNATIONAL COOPERATION

In the field of tax administration

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.

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 2007 the cooperation was performed in the framework of 42 conventions and the cooperation in 2008 is planned already in 44 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, and with the 2008 the other two conventions are in force – with Austria and Macedonia.

According to these conventions the contracts were signed On Mutual Administrative Assistance and Automatic Information Exchange with tax administrations of Sweden, Lithuania, Estonia, Denmark, and Finland, as well as spontaneous information exchange contract between the SRS and the tax administration of Netherlands. In 29 August 2007 such a contract was signed with the competent authorities of Belgium, in 18 December 2007 – with the tax administration of Czech Republic. Within the framework of contracts the cross-border simultaneous audits are organised and performed. There are another 12 conventions that are in different stages of adoption, while the operational information exchange and coordination should be performed with all member states of the European Union as of 1 May 2004 (since 2007 also with Bulgaria and Romania) in accordance with the normative acts of the European Union – the 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, the 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 the Council Directive 2003/48/EC of 3 June 2003 on taxation of savings income in the form of interest payments (accruals revenues directive).

In 2007 in 612 cases the information exchange was performed in the field of direct taxes with other member states of the European Union and countries with which the tax conventions were adopted.

In 2007 the circulation of other information in the field of direct taxes sent automatically either electronically or with the technical information storage devices. The manual processing of automatic information with 9 956 records on revenues acquired abroad by Latvian tax payers received from Lithuania, Finland, Sweden, Norway, Denmark, Poland, United Kingdom, and United States of America. Distribution of recognised 7 362 records to the respective SRS Regional offices was performed. Information in 2 269 cases was processed, translated, and sent to the tax administrations of European Union member states and the dependant territories in accordance with accruals revenues directive, and 3 319 recognised records are also available in the data bases of SRS Regional offices, which were received from the aforementioned tax administrations. An opportunity to control the potentially undeclared revenues increases after receipt of the information.

In 2007 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 2007 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 2007 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 2007 a total of 880 information requests were sent to European Union member states and 886 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.

In 2007 an active participation in the seminars, working groups, and experience exchange visits organised by international organizations and institutions (European Commission program *Fiscalis 2003/7*, Intra-European Organization of Tax Administrations (IOTA), Organization for Economic Cooperation and Development (OECD)), and in the work of committees of the European Council and the European Commission was continued, thus facilitating uniform application of European Union legal acts and adopting the experience of tax administrations of other countries.

In 2007 within the framework of the European Commission program *Fiscalis 2003/7* a seminar Excise Movement and Control System (EMCS) Influence on Tax Administration Operation was organised in Latvia, in which representatives of European Union member states discussed, shared the experience, and informed on planned changes in the work of tax and customs administrations, including in the provision of administrative cooperation and information exchange between European Union member states commissioning of EMCS in 2009.

In 2007 the participation was guaranteed in high level international events:

- 1) In the meeting of management of tax administrations of the Baltic States in Sarema, Estonia;
- 2) In the international forum Imposing Taxes – for Sustainable Development in Brussels, Belgium;
- 3) In the international conference on direct taxes organised by the German Federal Finance Ministry in Berlin, Germany;
- 4) In the 11th General Assembly Electronic Services for Taxpayers in a Modern Tax Administration of the Intra – European Organization of Tax Administrations (IOTA) in Bulgaria;
- 5) In the 41st General Assembly Main Structural Aspects of Tax Administrations Centro Interamericano de Administraciones Tributarias (CIAT) in Bridgetown, Barbados;
- 6) In the 12th meeting of Coordination Council of the management of tax administrations of the Commonwealth of Independent States in Kazan, Russia.
- 7) In the 12th Annual Global Forum of the Organization for Economic Cooperation and Development (OECD) on tax agreements in Paris, France;
- 8) In the annual meeting of the management of tax administrations of EU member states organised by the European Commission in Budapest, Hungary;
- 9) In the global international conference Taxation Small and Medium Enterprises in Buenos Aires, Argentina.

In 2007 the following experience exchange visits of other tax administrations to the SRS took place to promote a closer cooperation with tax administrations of other countries:

- 1) A visit of representatives from tax administration of Estonia on the tax control matters;
- 2) A visit of delegation from tax administration from Uzbekistan on the tax payers analysis for the tax administration needs;
- 3) A visit of representatives from tax administration of Macedonia on tax control matters;
- 4) A visit of representatives from tax agency of Egypt on tax administration matters;
- 5) A visit of representatives from customs of Italy on cooperation of customs and tax administration and process of tax payer analysis;
- 6) A visit of representatives from tax administration of Finland – *SESAM* user training;
- 7) An experience exchange seminar within the framework of *Fiscalis 2003/7* on tax control matters for representatives from tax administrations of Austria, Czech Republic, Finland, Germany, Hungary, Romania, Slovenia, Sweden and Malta.

In the field of Customs

Three years after the accession of Latvia to the European Union two major directions have taken shape for international cooperation in the field of customs: cooperation between European Union countries by implementation and observing united legislation, applying standard working methods, and striving to decrease customs redtape burden on entrepreneurs, and cooperation in the Eastern direction by implementing the neighbouring policy with Russia, Belarus, and Ukraine.

To guarantee the implementation of common European Union regulations in the field of customs in all European Union member states, working groups of the European Commission are organized on a regular basis, in which the interests of member states, including Latvia, on customs matters are protected.

In 2007 two major European Union level legislation projects were the Advanced Customs Code and E-Customs decision. These legislation tools will become a basis for e-environment implementation in the customs, which includes both the organizational improvements in customs institutions and the implementation of several new mutually connected customs information systems in all member states of the European Union, thus a large proportion of the European Commission working groups, international seminars, trainings, and other activities are dedicated to successful implementation of these measures.

Latvian customs service is represented in 42 permanent working groups of the European Commission and 2 working groups of the Council Committees in the field of customs. Additionally, Latvian customs officials take regular participation in international events, seminars, projects groups, and meetings organised by the European Commission program Customs 2007 and international institutions. The SRS Customs Criminal Board employees have participated in 10 international operations and provided informational assistance to the international anti-drugs operation Channel 2007 organised by the State Police, and also performed coordinated preventive measures with the Estonian and Lithuanian customs services on the common borders.

Overall, in 2007 621 representatives of the SRS had participated in 384 events related to customs matters.

In 2007 an active participation in the experience exchange program of Customs 2007 was continued, in which 51 representatives of Latvian customs service participated in 16 organised working visits to customs divisions in Estonia, Lithuania, Hungary, Czech Republic, Italy, Poland, Greece, Netherlands, United Kingdom, and Germany. Additionally, in 2007 in the framework of experience exchange program of Customs 2007 20 colleagues from customs services of Finland, Estonia, Hungary, Italy, and Bulgaria visited Latvian customs service during 7 visits.

In cooperation with customs and tax administrations of Estonia and Lithuania the customs benchmarking project Audit of traditional own resources and the Common Agriculture Policy of Customs 2007 program was started. In 2007 experts participated in three meetings in different countries to assess the best practices and to develop audit module for control of traditional own resources and the Common Agriculture Policy.

In 2007 several important international events were organised in the Latvian customs with the participation of representatives from the European Commission Tax and Customs Union Directorate General and customs services of European Union countries: the visit of M.Zielinski, Director of the C Directorate – Customs Policy of the European Commission Tax and Customs Union Directorate General, the meeting of management of Lithuanian and Latvian customs services; a meeting of Naples II Convention; the second meeting of project group of the Tariffs and Statistical Classification Unit of the Customs Code Committee on Combined Classification Position 8 517; 3rd meeting of Customs 2007 project group, which develops guidelines for cooperation of customs services in case of bird flu outbreak; meeting of experts from Baltic States and Finland on potential cooperation in the implementation of e-customs projects in order to decrease the expenses.

In April 2007 an international conference: Combating the Trade in Illegal Cigarettes in the Baltic Sea region took place in Riga, in the organization of which the SRS Customs Criminal Board took part. The current issues on smuggling of cigarettes, their combating and hindering, and also the international cooperation matters on internal and external borders of the European Union were discussed during the conference.

In 2007 the negotiations between the Commonwealth of Independent States region and European Union countries have become more active. It opens up the opportunities for mutual cooperation of customs services of Latvia and the Commonwealth of Independent States.

In March 2007 the meeting between A.Drulle, the Director of the SRS National Customs Board, and A.Beljaninov, the Head of Federal Customs Service of the Russian Federation, took place in Moscow, during which the officials discussed the situation on Latvian-Russian border and the queue creation prior to entering the border check points. To continue the exchange of positions on border crossing matters A.Beljaninov, the Head of Federal Customs Service of the Russian Federation, with the delegation will visit Latvia in October 2007.

In 2007 the permanent working group of customs administrations was created, to ensure the mutually coordinated approach to the planning of customs checkpoint infrastructure, to increase the throughput, and to equip them. In 2007 the first meeting of the working group took place in Terehovo and next meeting – in Pskov.

In 2007 the Latvian Customs along with the customs services of other eleven European Union member states and the Federal Customs Service of the Russian Federation engaged a pilot project on the exchange of customs information of the European Union and Russia. During the implementation of the project it is planned to provide the exchange of customs information prior to a cargo of European Union origin arriving in the customs check point on the external border of the EU with Russia to allow Russian side to perform risk analysis in a timely fashion. The pilot project is planned to be initiated in 2008.

The most important issue of 2007 in the cooperation between Latvia and State Customs Committee of Belarus was the revision of Technologies on Information Exchange on Goods and Vehicles Crossing Latvian – Belarusian border and decreasing the amount of information to increase the utilization efficiency of human and material resources, as well as to promote the international trade. In November 2007 a meeting of the management of Latvian and Belarusian customs services took place in Braslava, during which the issue on information exchange between the customs services of both countries was examined.

Experts of the SRS National Customs Board are also working in the Latvia – Belarus intergovernmental commission on economic, scientific and technical cooperation matters.

To discuss the changes in legislation in the field of customs after the accession of Latvia to the European Union and to inform about the requirements and conditions for movement of goods over the border of the European Union, as well as the application of tariff and non-tariff measures management representatives from the Latvian customs service made a work visit to Kiev, Ukraine in August 2007. During the visit of A.Fjodorov, the Deputy Head of the Ukrainian Customs Service, to Latvia in October 2007, the officials were discussing the possibilities for cooperation and experience exchange in the development and implementation of technical and legislative reforms in the field of customs.

In 2007 the active participation was continued in provision technical assistance to the missions with a donor country status. 11 representatives of the SRS customs divisions participated in various projects – the Technical Assistance to the Commonwealth of Independent States (TACIS), the

European Commission External Cooperation Programmes (EuropeAid), European Union Border Control Support Mission on the border of Moldova – Ukraine, European Union Customs and Fiscal assistance program for Balkan countries (CAFAO) in Moldova, Russia, Uzbekistan, Macedonia, and Montenegro – providing consultations on tax audit, professional standard, and internal audit matters, strategic planning, protection of intellectual property, the practical application of customs legislation and control measures.

In May 2007 within the framework of Technical Cooperation Program of Germany, a delegation of high level state administration officials from Kyrgyzstan, Tajikistan, and Uzbekistan was hosted by the Latvian customs service. In May 2007 within the framework of Eurocustoms project – Technical Assistance to the Commonwealth of Independent States (TACIS) – a delegation from Moldavian customs visited Latvia, the representatives of which discussed on the matters of simplification and harmonization of customs procedures, while in November a delegation of representatives from Uzbekistan Customs Committee was hosted in Latvia during a work visit.

A participation of Latvian customs employees in the joint sports activities organised of the European Customs Sports Association and customs services of European countries have been successful. In 2007 customs employees achieved good results in the 20 kilometre run in Brussels, Belgium, while in the autumn of 2007 in Budapest, Hungary, an employee of the SRS National Customs Board representing our country solely, took first place in the team rating among customs administrations of European countries, while taking fourth place among the customs officers based on the individual rating. In 2007 excellent results were also achieved by the employees of the SRS Customs Criminal Board during the shooting competition in Lithuania.

Participation in sports competitions not only motivates the customs employees to be in a good physical shape, but also promotes the international recognition of Latvian customs, which strengthens the bond with customs representatives from other countries, which has a special significance in performing daily work duties.

BUDGET INFORMATION

Budget Financing and Expenditure

Under the law On the Budget for 2005 the SRS has used the budget grant according to approved cost estimates and financing plans. A system of internal control of financial funds, economic transactions and projected realised by the SRS is established and it ensures efficient and cost effective use of available resources.

Total State Financing and Expenditure, in Lats

No.	Financial resources	2006 (Actual performance)	2007	
			Under the law	Actual performance
1.	Financial resources to cover the costs (total)	79 065 347	106 312 009	105 813 230
1.1.	Grants	75 127 065	105 691 689	105 691 689
1.2.	Paid services and other own revenues	1 826 176	620 320	121 541
1.3.	Foreign financial assistance	2 112 106	0	0
2.	Expenditures (total)	77 382 188	106 420 537	99 793 574
2.1.	Maintenance expenditures (total)	71 279 484	87 456 032	85 151 215
2.1.1.	Subsidies and grants, including contributions to international organizations	10 686 978	12 917 780	12 518 149
2.1.2.	Other maintenance expenditures	60 592 506	74 538 252	72 633 066
2.2.	Expenditures for capital investments	6 102 704	18 964 505	14 642 359

The SRS expenditure of financial resources of the Ministry of Interior *Schengen Facility* financial program projects in 2007, in Lats

Project title	Foreign financial assistance funds		budget co-financing		Total spent
	allocated	spent	allocated	spent	
Project No.1/6 Increasing the control efficiency of persons and belongings on external borders	97 819	91 322,65	-	-	91 322,65
Project No.2/7 Procurement of sniffer dogs	67 882	55 999,36	3 502	3 428	59 427,36
Total	165 701	147 322,01	3 502	3 428	150 750,01

The Funding Assigned in 2008 to the Primary Measures, in Lats

Title of the Primary Measure	The Funding Granted to the Primary Measure
Expenditure for planned wage, remuneration increase in 2008	2 481 333
To simplify procedures for meeting customs and tax liabilities providing the necessary control, using modern information technologies (document digitalization system, improvement of e-services)	1 259 762
To protect economic interests of Latvia and European Union by improving the work of tax and customs control divisions, to cooperate with the institutions of Latvia, European Union member states, and other countries (including creation of the SRS special attaché in the Commonwealth of Independent States and sending of the SRS liaison officer to the Europol)	380 000
To provide Mobile Units of the Customs Criminal Board with marked and special vehicles, by performing the procurement in 2008 and 2009 – 2010, guaranteeing their maintenance	192 000
Total	4 313 095

Operational Priorities of the SRS Financial Department:

- 1) optimization of cash flow control system to ensure operational management of the financial resources allocated in the budget and to minimise the risk of not up taking the allocated funds in time;
- 2) performing control measures in the SRS Regional offices to analyse the coordination process management of changes in the funds allocated in the budget to the SRS Regional offices, which would ensure the joint development of coordination process management of changes in the funds allocated in the budget to the SRS;
- 3) improvement of methodology management and optimization of cooperation with the financial staff of the SRS Regional offices.

PERSONNEL

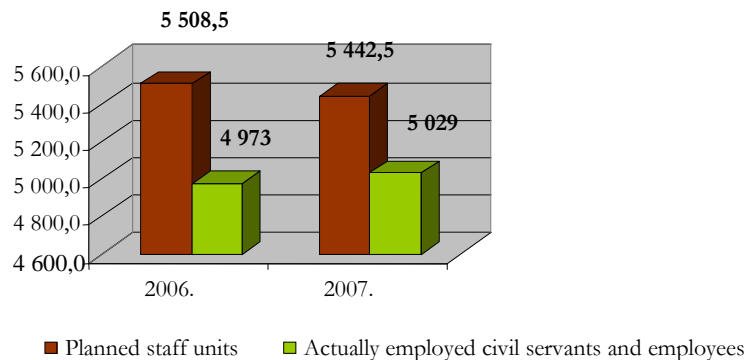
Analysis of the Personnel

In 2007 a total of 5 442,5 staff units were planned in the SRS, including, 4 371 civil servant staff units and 1 071,5 employee staff units.

At the end of 2007 there were 5 029 employees working in the SRS, 4 021 of which were civil servants and 1 008 were employees.

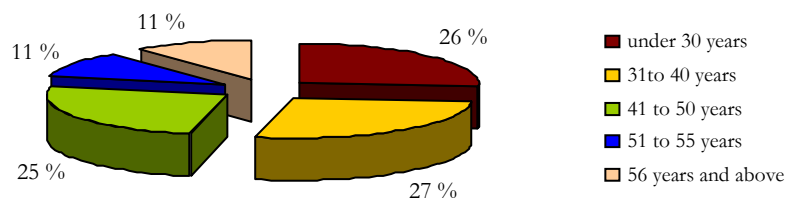
In 2007 there were 3 618 females working in the SRS, which is 72 % of all employees, and 1 411 males.

Comparison between the numbers of planned staff units and actually employed civil servants and employees



In 2007 the distribution of personnel according to the age groups has not experienced significant changes compared to 2006 – the number of employees aged above 55 has increased by 1% (11% of the employees in 2006). At the end of 2007 1329 of the employed 5029 persons in the SRS were aged under 30, 1317 –aged between 31 and 40 years, 1221 – aged between 41 and 50 years, 557 – aged between 51 and 55 years, and 605 – aged 56 and more years (528 in 2006).

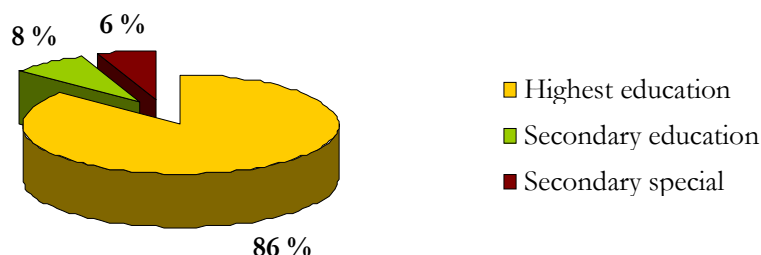
Breakdown of Personnel by Age Groups



Level of Education of the Personnel

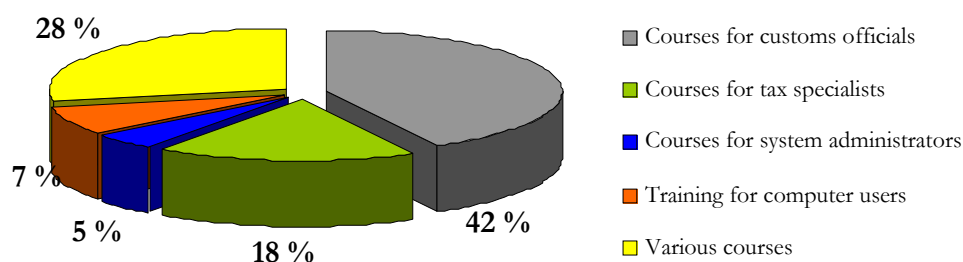
In 2007 the employees of the SRS having higher education has increased from 85 % in 2006 to 86 % in 2007. At the end of 2007 4 335 of the SRS employees had the highest education (including 5 SRS employees who had doctor's degree, 614 – master's degree), 380 – secondary, and 314 – secondary professional).

Education of the personnel, percents



In 2007 3 103 SRS employees have attended various qualifications courses on customs matters and in the field of tax administration, courses for computer administrators and users, as well as various other types of courses in the School of Public Administration and other educational institutions.

Qualification Courses Attended by Civil Servants and Employees



Length of Service at the SRS

As of 31 December 2007 922 employees had worked in the SRS for more than five years and 1 943 – for more than 10 years. Compared to the indicators at the beginning of year 2007, the number of employees, who had worked in the SRS for more than 5 years, has decreased to 922 from 1 026, while the number of employees, who had worked for more than 10 years, has decreased to 1 943 from 2 043. However, compared to 2006, the number of employees who had worked in the SRS for less than 5 years have increased significantly – 1 904 in 2006 and 2 164 – in 2007.

Staff Turnover

In 2007 859 employees started working in the SRS. 843 employees have stopped working for the SRS in 2007. Compared to 2006, in 2007 the number of employees, who resigned – 649 in 2006, has increased and was 739, however, the number of employees, who were sacked – 108 in 2006, has decreased and was 90 in 2007.

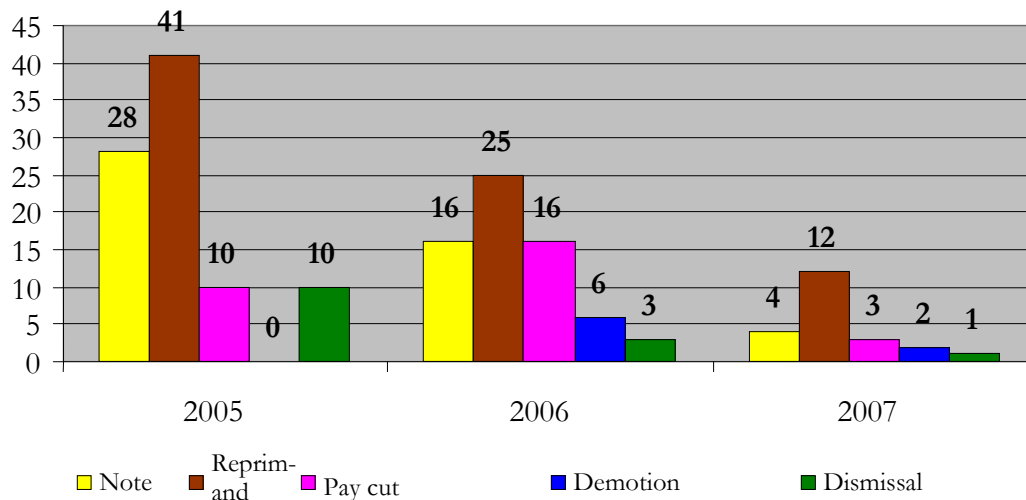
In 2007 the overall staff turnover indicator in the SRS was 16 %, even though in some divisions and Regional offices of the SRS it even reached 25 %.

Disciplinary Punishment

In the SRS a great attention is paid to quality of the work and obeying working regulations. Work inspections are performed in the SRS during which violations may be discovered. It should be noted, however, that a positive trend is observed during the last years – the number of disciplinary punishments to employees is decreasing considerably.

In 2007 a disciplinary punishment was dealt to 22 civil servants and employees, which is 44 civil servants and employees less than in 2006, in which 66 employees and civil servants were brought to disciplinary accountability. In 2007 the SRS has dealt disciplinary punishment to 21 civil servants and employees of the SRS Regional offices (10 in the SRS Latgale Regional Office, 2 in the SRS Kurzeme Regional Office, 5 in the SRS Riga Regional Office, 4 in the SRS Zemgale Regional Office) and 1 civil servant of the Internal Audit Department in the SRS Central Office.

Types of Dealt Disciplinary Punishments



At the end of 2007 a total of 147 job vacancies were removed in the SRS:

- 101 of those were removed on 26 October in the following SRS divisions:
 - SRS Central Office 46 staff units;
 - SRS Kurzeme Regional Office 3 staff units;
 - SRS Riga Regional Office 40 staff units;
 - SRS Riga Customs Regional Office 5 staff units;
 - SRS Vidzeme Regional Office 6 staff units;
 - SRS Zemgale Regional Office 1 staff unit;
- 46 – removed as of 21 December:
 - SRS Central Office 8 staff units;
 - SRS Riga Regional Office 12 staff units;
 - SRS Riga Customs Regional Office 20 staff units;
 - SRS Zemgale Regional Office 6 staff units.

COMMUNICATION WITH THE PUBLIC

In 2007 the SRS took a few more steps to educate the public. With a high sense of responsibility we continue a dynamic movement towards benefiting society using communications channels.

The SRS has started new traditions and has also developed the existing.

Not everything in an envelope is gold

(pictures – Not everything in an envelope is gold © State Revenue Service, Think if it's worth it?)

In the spring the SRS implemented an extensive campaign “Not everything in an envelope is gold” to turn the attention of the public to the risks and losses done by receiving pay in an envelope and to change its perception.

The campaign included direct communication the public. 100 000 Latvians received a package – black envelope with “Not everything in an envelope is gold” written on it in their mailboxes. In the envelope a postcard was placed, which contained thoughtful Latvian sayings with small explanations on what a person loses by receiving pay in an envelope.

A salary calculator and calculators for four types of allowances were created in the SRS web site www.vid.gov.lv. The calculators provide the public with the opportunity to check for themselves how much they lose by receiving pay in an envelope. With the calculators it is possible to calculate the size and difference, which is caused by a person receiving pay in an envelope, for:

- 1) unemployment allowance;
- 2) sick-pay;
- 3) maternity allowance;
- 4) child care allowance.

Campaigns dissuading the public from receiving pay in an envelope were also taking place in the news portals.



with



Recognising the Contribution of the Largest Tax Payers in Latvia

This year commemorates the 10th anniversary of the SRS recognising the contribution of the largest taxpayers.

The SRS said Thanks to the largest taxpayers for the loyal attitude towards the state, for honest everyday work, and contribution to the budget in 2007.

In 2007 the top ten of the largest taxpayers into the combined budget:

1. Latvija Statoil SIA
2. Mazeiku nafta tirdzniecības nams SIA
3. AS Latvijas Balzams
4. VAS Latvijas dzelzceļš
5. Lukoil Baltija R SIA
6. Neste Latvija SIA
7. AS Latvijas gāze

8. Latvijas mobilais telefons SIA
9. Philip Morris Latvia SIA
10. AS Latvenergo

A total of 533,3 million lats were paid in the taxes by the 10 largest taxpayers in 2007. From the total 4,6 billion lats collected in 2007, the percentage of tax contribution made by Top 10 was approximately 11 % of the revenues to the budget in 2007.

The most advanced EDS users in 2007 (selection criterion – the number of electronically submitted document types and the number of documents as a percentage of all documents to be submitted to the SRS by the company):

1. AS Ventbunkers
2. AS Jauda
3. AS L-ekspressis

The most advanced production companies in 2007 (selection criterion – the increase percentage of the calculated tax volume compared to the previous year):

1. AS Rigas dzirnavnieks
2. Rettenmeier Baltic Timber SIA
3. Rigas finieru rupnica SIA



The event for recognising the contribution of the largest taxpayers in Latvia of 2007, May 2008

Day of Opportunities

In September a great deal of attention was paid by the SRS to education and mutual cooperation with Latvian youngsters and children. The goal of the Day of Opportunities project was to educate children and youngsters on taxes, why they have to be paid, as well as to introduce them to

the work of SRS divisions, thus showing that the work in SRS divisions is not only very responsible and important, but also interesting, dynamic, and exciting.

Three events were organised within the framework of the project Day of Opportunities:

1. Excursion around various SRS divisions and institutions or project event Visiting the SRS

Excursions were organised in all SRS Regional Offices and largest SRS divisions for four days, during which children and youngsters became acquainted with the everyday work, work specifics of SRS employees, interesting stories, and also asked their questions to the SRS staff. The largest response was observed in the SRS Vidzeme Regional Offices, which was visited by almost 900 pupils during the excursions. A high response was also in Latgale and Zemgale Regional Offices, which were attended by slightly more than 500 and almost 400 pupils, respectively. Overall, the excursions were attended by approximately 1 900 pupils.



2. Knowledge and Sports Games Secondary School Games



18 schools from all around Latvia participated in these non-traditional games, in which the erudition, agility and sports skills of secondary school pupils were tested.

Winners of Secondary School Games – Ikšķile secondary school –

deserved the challenge cup, which will be handed over to the new winners of the games in 2008.



II International Competition for Children with their dogs Well Raised Friend

This is the second time the competition has been organised for and this year the number of participants was even larger than in the previous year. 17 children and youngsters with their well raised pets – dogs participated in the competition last year, while this year 26 children, youngsters and their dogs from Latvia, Lithuania, and Poland were showing the quality of mutual cooperation.

Participants of the competition were divided into three groups. Taking into account the work,



patience, and determination of children and youngsters when training their dogs to follow various orders given by their little owners, none of the performances were evaluated lower than third place. The competition participants, who showed excellent and outstanding performance, divided first and second places amongst them in each age group.


Where Do Your Taxes Go?

The aim of campaign performed in September and October was to inform Latvians on where the money paid in taxes goes, to promote changing the perception of the public, and to motivate those who don't pay taxes to change their ways. Since the tax revenues increase over the years both from the economic development of the state and due to operation of the SRS, it is important to clear the uncertainty on where this money goes. Within the framework of social campaign Where Do Your Taxes Go? the SRS informed the public about spending of the funds collected in taxes – the information on the funds allocated to particular sectors and fields and specific implemented projects was provided.

Main topics of the campaign: health, roads, state social support. During the campaign television advertisements were broadcasted, advertisements were put in national and regional media, advertisement banners in the Internet, non-traditional advertisement types were also used (advertising in supermarket and on the doors of supermarket Origo; the advertisement stand and informational materials in three hospitals (Riga 1st Hospital, Paul Stradiņš Clinical University Hospital, Hospital Linezers).

It has to be noted that a special Internet web site www.maninodokli.lv was created (the information is available on various projects implemented by municipalities and their expenditure in the last years).


Slogan of the campaign, which goes through all the informational materials – If We Don't Pay Taxes, There Will Not Be Enough Funds For Everything!



Veselības aprūpei šogad atvēlēti 515 miljoni latu, kas ir par 101 miljonu latu vairāk nekā pērn.

Un tomēr... **JA NEMAKSĀSIM NODOKĻUS, NAUDAS VISAM NEPIETIKS!**


Uzzini, kur paliek Tavi nodokļi:
www.maninodokli.lv



Māmiņu algām, pabalstiem, pensijām un citām sociālām garantijām šogad atvēlēti 1.22 miljardi latu, kas ir par 142 miljoniem latu vairāk nekā pērn.

Un tomēr... **JA NEMAKSĀSIM NODOKĻUS, NAUDAS VISAM NEPIETIKS!**

Uzzini, kur paliek Tavi nodokļi:
www.maninodokli.lv



Ceļu uzturēšanai šogad atvēlēti 190 miljoni latu, kas ir par 80 miljoniem latu vairāk nekā pērn.

Un tomēr... **JA NEMAKSĀSIM NODOKĻUS, NAUDAS VISAM NEPIETIKS!**

Uzzini, kur paliek Tavi nodokļi:
www.maninodokli.lv

Work with the Mass Media

The SRS is informing the public on news of its operation on a regular basis through the mass media both by provided information on its own initiative and by answering various journalist questions. The media monitoring (performed by Mediju Monitorings SIA) data shows that on average per month there are 900 publications/reports in mass media (printed, television, radio and internet portals, regional newspapers), i.e., on average 40 per weekday, which are related to the SRS or the matters within the authority of the SRS (taxes and tax evasion, customs, excise goods circulation, etc.).

PRIORITIES FOR 2008

In Tax Administration:

- 1) ensuring the performance of SRS administered revenue plan in the amount of 5595 million lats according to the Law On the Budget for 2008;
- 2) improving the taxpayer servicing by improving the servicing quality and decreasing the time needed to meet the tax liabilities, development of information system to support work with tax payer consultations;
- 3) improvement of work on reports and declarations by promoting wider use of the EDS by strengthening the performance of data credibility assessments and implementation of document digitalization project;
- 4) taking steps to combat tax evasion, especially against performing unregistered commercial activities and paying salaries in envelopes.

In Customs Operation:

- 1) continued implementation of E-Customs;
- 2) guaranteeing development of the European Union external border (Eastern border of Latvia; Reconstruction and construction of border check points;
- 3) ensuring and improving the international cooperation;
- 4) combating organised crime.

In Prevention and Combating Criminal Offences and Smuggling:

- 1) combating tax (especially value added tax and envelope salaries) frauds and violations of customs procedures;
- 2) combating organised crime in the field of taxes and customs;
- 3) combating money laundering;
- 4) discovery and prevention of smuggling of narcotic and psychotropic substances.

In the Field of Excise Goods Movement:

- 1) to provide the opportunity for commercial entities to submit the excise goods circulation reports using the SRS EDS;
- 2) to continue work on implementation and improving the Excise Movement and Control System (EMCS), which will ensure the transparency and operational control possibilities for excise goods circulation;
- 3) perform quality supervision of petrol products (incl., biofuel, marine diesel, and marine gas oil);
- 4) to strengthen the circulation control of alcoholic beverages and petrol products, to which the excise duty exemptions are applied, and also supervision of petrol product reserves;
- 5) to continue work on testing and optimization of excise goods movement Risk Analysis System (RAS) functionality, guaranteeing the use of Risk Analysis System results in the planning of excise goods movement control measures;
- 6) to implement excise duty stamps of new design with additional security elements for tobacco products, which will increase the protection capacity of legal market;
- 7) to implement EDS reports on used excise duty stamps for tobacco products and alcoholic beverages;
- 8) to draft new regulations of the Cabinet of Ministers Procedures for Marking of Alcoholic Beverages and Tobacco Products with Excise Duty Stamps;
- 9) to draft amendments to the Cabinet of Ministers Regulations No.638 Regulations on Excise Tax Guarantees for Alcoholic Beverages, Tobacco and Petrol Products from 30 August 2005.