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INTRODUCTION OF THE SRS DIRECTOR GENERAL

As a result of an active and intensive working year, the State Revenue Service has achieved good work results. The basic task of the State Revenue Service is to ensure the implementation of state budget revenue plan and, in this sense, year 2005 has been particularly successful – tax and non-tax revenue administered by the SRS into state budget has been collected by 29,5% more than in 2004, and that is the greatest increase over the last 7 years. Of course, the increase of tax revenue has been promoted also by the economic development of Latvia, though, undeniably, it is as well the result of work done by the SRS.



To ensure good work results, great attention last year was paid to the improvement of tax control activities, introduction of various new and modern work methods – the development of data bases, risk assessment of tax avoidance and evasion, purposeful and efficient implementation of tax control measures, as well as the introduction of movement of electronic documents. In the same way, strategic plans have been developed last year, as well as their action plans for all main structural units of the service.

As regards the contribution of the State Revenue Service to the improvement of business environment, I would like to note that the service has continuously paid special attention to information and education of taxpayers, including the organisation of different seminars free of charge. Last year a great number of proposals also have been made for the amendments of legal provisions to prevent the deficiencies found in legal provisions on the basis of constructive suggestions of taxpayers. New web site of the State Revenue Service has been developed last year that, in comparison to the old one, ensures very wide opportunities and is considerably more convenient source of information acquisition.

The task and objective of the State Revenue Service is to promote voluntary tax payment, therefore, in 2006 we will proceed with already started activities to become the partner of taxpayers in fair accomplishment of liabilities towards state, special attention paying to the implementation of different preventive measures.

Director General of the State Revenue Service
Dzintars Jakāns



BASIC INFORMATION

The foundation of the SRS

The law „On the State Revenue Service“ was adopted in November 28, 1993; it determined the establishment of unified revenue administration institution – the State Revenue Service (hereinafter – the SRS), combining two organisations founded after the retrieval of independence of the Republic of Latvia – State Inspection of Finance that was responsible for tax collection, and Customs Board that was responsible for customs duties and fees and international trade. Main objectives of the SRS establishment were:

- to achieve the establishment of more fair tax system;
- to improve co-operation with taxpayers;
- to form social idea about the necessity of tax payment;
- to establish respective taxpayer services;
- to reduce bureaucratic process and procedures;
- to reduce administrative expenditure.

Today the SRS is an institution of direct governance under the supervision of Minister of Finance that ensures the accounting of tax payments and registration of taxpayers, collection of state taxes, fees and other mandatory payments determined by state in the territory of the Republic of Latvia, collection taxes, fees and other mandatory payments into the EU budget, and also ensures the collection of duties, fees and other mandatory payments on customs border, carries out the policy of state customs, implements efficient protection of society and environment and ensures the observation of customs regulations on the external border of the EU and the state territory, balancing it with promotion of legal external trade. Main legal acts regulating the operation of the SRS are: the law „On the State Revenue Service“, law „On Taxes and Fees“, Customs law, the European Union Customs code and regulations of its introduction, law „On Prevention of Conflict of Interest in Activities of Public Officials“, State Civil Service law, Labour law, Labour Protection law and other legal provisions



BASIC INFORMATION

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The Objectives of the SRS

- ensure equal terms for all taxpayers in the state;
- promote tax compliance ;
- form the civic consciousness about the necessity of paying taxes and voluntary tax payment;
- promote trade and entrepreneurship;
- ensure diverse and qualitative service for clients;
- protect society, economy and environment, developing the detection and prevention of violation of customs regulations and criminal offences.

The Main Tasks of the SRS

- ensure the collection of the state taxes, fees and other mandatory payments administered by the SRS in the territory of Latvia and on customs border, as well as the collection of taxes, fees and other mandatory payments for the EU budget;
- implement state customs policy and ensure the protection of customs border;
- prevent and detect criminal offences in the sphere of state taxes, fees and other state mandatory payments, as well as in the sphere of customs affairs;
- ensure the training of the SRS officials (employees), as well as consult taxpayers according to the procedure determined by the legal provisions in issues of application of tax legislation;
- register taxpayers in accordance with the procedure determined by legal provisions and control the conformity of registration documents to the requirements of laws and actual situation;
- ensure the implementation of legal provisions regulating the movement of excise goods, react to international situation in the sphere of safety and protect the society and environment from outer threat;
- protect the EU external border and co-operate with other national and international institutions;
- ensure the compliance of SRS performance with the priorities of the EU.

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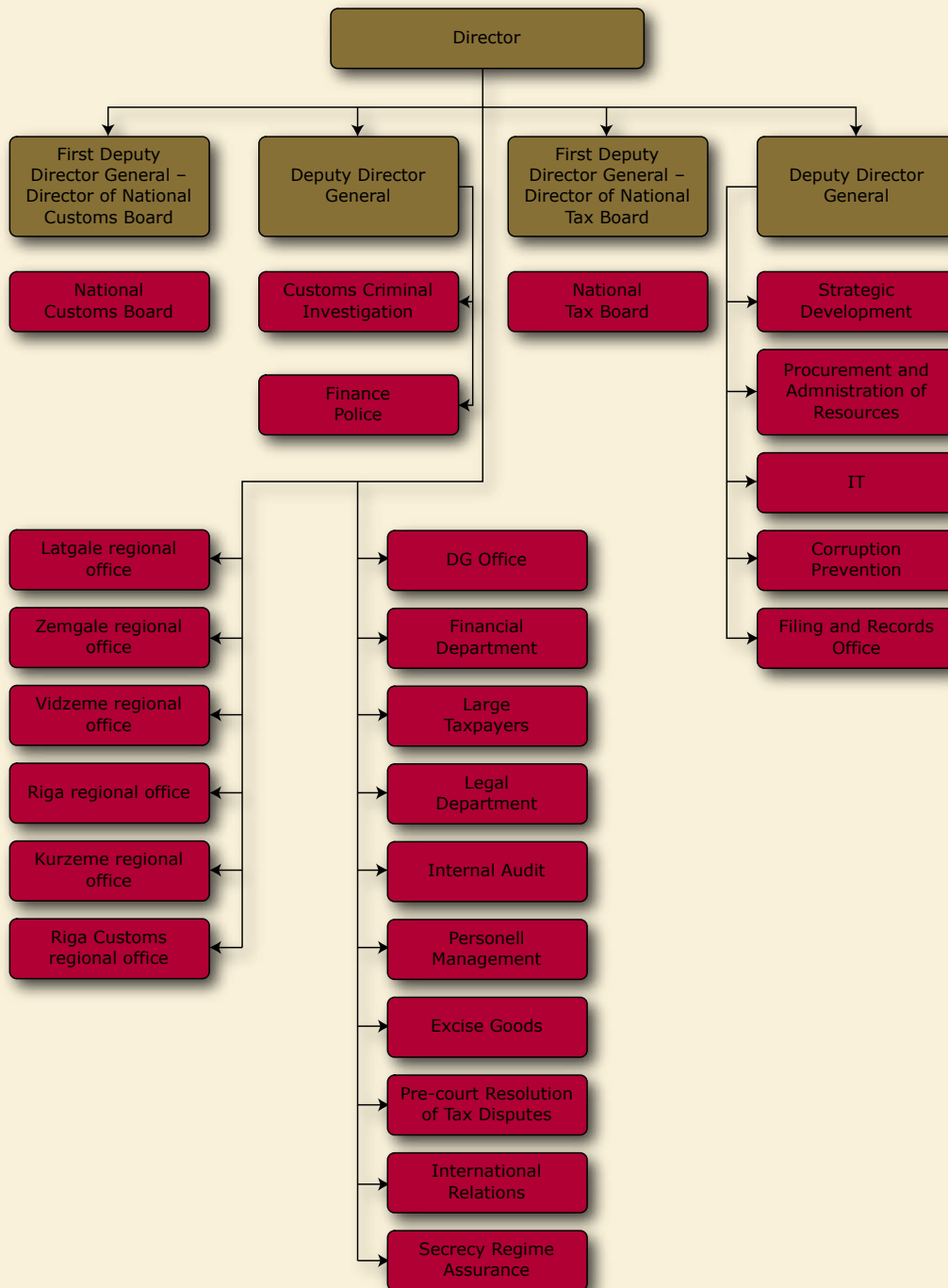
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BASIC INFORMATION

Structure of the SRS



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OPERATION PRIORITIES AND RESULTS

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PRIORITIES AND RESULTS OF THE ACTIVITIES

- Budget programmes and sub-programms performance indicators
- Management and operation improvement systems
- Tax administration
- Tax revenue performance by types of taxes
- Customs matters
- Combating of financial crimes
- Supervision of excise goods movement
- Control of the operation of state officials
- Tax enforcement and resolution of tax disputes
- International cooperation

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RESULTS OF BUDGET PROGRAMS AND SUBPROGRAMS

Analysis of the implementation of results of budget programs and subprograms and the evaluation of efficiency of the expenditure of state budget assets

Title of results	Competent structural unit of the SRS	Plan of the report period	Actually in report period	Explanations of the deviation of results
33.00.00 program "State tax administration"				
Number of staff units	Finance department	3 602	3 284	Staff turnover of the SRS in 2005 is 12.6%. In 2005 on average there are 9% vacancies of staffing, to which competitions have been announced
State and municipal income inland administered by the SRS (millions of Ls)	National Tax Board	2 284,8	2 431,70	State and municipal income inland administered by the SRS were collected in the amount of 2 431.7 million Lats and the implementation of plan reached 106.4%. The main factors influencing the excess of plan: <ul style="list-style-type: none"> - changes of legislation (the change of payment procedure by Latvia entering into the EU, the change of tax rates) and economic processes in state (the increase of the amounts of foreign trade, increase of the amounts of transferred cargo, increase of retailing turnover, increase of consumption prices); - the improvement of tax administration process (development of tax control work, the objective of which is to ensure that all taxpayers would pay the determined tax payments in budget in defined amounts according to certain deadline, reduce the possibilities to evade tax payment, thus, preventing the losses of budget, ensure the protection of fair taxpayers);

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				<ul style="list-style-type: none"> - the improvement of taxpayers' service work, ensuring taxpayers' consultation, information and education in the issues of the application of tax legal provisions; - the increase of the number of taxpayers <ul style="list-style-type: none"> - legal persons (in December 31, 2005 there have been registered 130 772 taxpayers - legal persons, that are for 3496 taxpayers or 2.7% more than in December 31, 2004)
34.00.00 program "Customs operation guarantee"				
Number of staff units	Finance department	1 531	1 418	Staff turnover of the SRS in 2005 is 12.6%. There are on average 7% vacancies of staffing in 2005, to which competitions have been announced
including specialised attaches in Brussels		1	1	
Collection of Customs payments (millions of Ls.)	National Customs Board	213,4	225,4	In 2005 the excise tax rate for excise goods was increased (beer and alcohol) and the number of transactions taxed with VAT increased, crossing the EU external border, as well as the total turnover of goods.
Customs control stations on railways have been adopted for exploitation	National Customs Board	150 000	208 382	<p>Innovations have been introduced in the sphere of customs control in 2005:</p> <ol style="list-style-type: none"> 1) new procedure of freight physical control has been developed; 2) identification and control of functions delegated to customs and criteria of their implementation; 3) three freight scanning facilities began their work in 2005 (two in SRS Latgale Regional institution and one in SRS Riga Customs regional institution)

RESULTS OF BUDGET PROGRAMS AND SUBPROGRAMS

Customs control stations on railways have been adopted for exploitation	National Customs Board	1	x	In 2005 there had been planned to accept for exploitation the customs control station on railway „Šķīrotava”, but, taking into account the fact that, during the construction operations due to the project shortcomings and inadequacy with the real situation , there appeared the necessity to carry out supplementary work not provided by project that initially delayed the planned course of construction work, the implementation deadline of the construction agreement was prolonged till May 31, 2006.
Railway weighing-machine installed on the railway	National Customs Board	2	x	In 2005 there has been developed project of railway weighing-machine customs control station „Šķīrotava” and, after the development of the project was finished, procurement procedure was launched - open competition where forms of applicants were not received, and, thus, the method of purchase was changed into the procedure of negotiation. Due to the delay of purchase procedure, the agreement on the construction of scales was signed only in December of 2005.
Materials considered according to the procedure of Article 109 of the Code of Criminal Procedure of the Republic of Latvia	Customs Criminal Board	69	69	
Materials considered according to the procedure of Article 369 of the law of Criminal Procedure	Customs Criminal Board	15	26	Reorganisation of the SRS customs institutions involved in fight against smuggling has been carried out in 2004; it gave an opportunity for SRS Customs Criminal Board to raise actual indicators of effective

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				ness, comparing with the one foreseen in the plan of 2005.
Criminal cases have been prosecuted	Customs Criminal Board	48	48	
Criminal procedures have been evoked	Customs Criminal Board	12	31	Reorganisation of the SRS customs institutions involved in combat of smuggling has been carried out in 2004 that gave an opportunity for the SRS Customs Criminal Board in 2005 to raise actual indicators of effectiveness, comparing with the one foreseen in the plan of 2005.
Finished investigations	Customs Criminal Board	10	14	
Criminal cases sent for evoking criminal persecution	Customs Criminal Board	21	32	
Statements of administrative offences made in implemented controls	Customs Criminal Board	300	338	
35.00.00 program „Provision of detection and prevention of offences of financial nature, corruption“				
Number of staff units	Finance department	256	231	Staff turnover of the SRS in 2005 is 12.6%. On average there are 10% vacancies in staffing in 2005 to which competitions have been announced
The materials have been considered according to the procedure of Article 109 of The Code of the Criminal Procedure of the Republic of Latvia	Finance Police Department	907	921	New law of Criminal procedure came into force by October 1, 2005 and the related changes into the procedure and organisation of investigation work, as well as with the optimisation of the implementation of functions influencing the executions of indicators
Criminal cases have been prosecuted	Finance Police Department	481	483	

RESULTS OF BUDGET PROGRAMS AND SUBPROGRAMS

Criminal procedures have been evoked	Finance Police Department	150	229	
Criminal cases sent for evoking criminal persecution	Finance Police Department	320	393	
Statements of administrative offences made in implemented controls	Finance Police Department	500	498	
Controls performed in state and municipal institutions on the non-submission of the lists of state officials and the amendments of these lists according to the definite procedure and the submission of incomplete lists	Corruption Prevention Department	300	422	Number of unplanned control activities performed upon the demand of other controlling institutions increased in 2005.
The tax returns of state officials received, registered and put in data base	Corruption Prevention Department	60 000	78 771	The number of officials has increased by state officials changing workplaces, by developing new institutions and reorganising the existing institutions
Lists of state officials and the amendments of lists of state and municipal institutions received, registered and put in data base	Corruption Prevention Department	3 500	3 821	By developing new institutions, as well as in the result of active SRS control

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RESULTS OF BUDGET PROGRAMS AND SUBPROGRAMS

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Decisions made on bringing to administrative responsibility	Corruption Prevention Department	100	580	Implementing more strict control in observation of deadlines for submission of the tax returns of state officials and the observation of procedure for the submission of the lists of state officials and the amendments of these lists.
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2001

37.00.00 program "Provision of the documentation required for legal circulation of goods"				
Number of staff units	Finance Department	15	0	In 2005 the possibility was evaluated to move non-staff employees, who ensure the administration of the realisation of waybills of goods, to staff. It will be implemented in 2006.

2002

Plan and Implementation of Financing Allocated to Prior Activities in 2005

2003

Title of Prior Activity	Financing allocated and used for prior activity (Ls)	Additionally assigned staff units for the implementation of prior activity
Guarantee of administrative capacity in relation to administrative, technical, finance management and control of the EU co-financing projects	579 321	57
The SRS information systems and the improvement and maintenance of related infrastructure	857 735	-
Administration of excise tax on oil products and guarantee of monitoring of the movement of oil products	295 795	25
Finishing the renovation of the SRS Riga Customs Regional Office in Riga, Citadeles street 1	720 125	-
The maintenance of mobile x-ray equipment for the customs control of the EU external border bought in 2004 within the framework of State Investments' program project OP03 „Customs Posts on Borders"	87 000	-
The maintenance of mobile x-ray equipment for the customs control of the EU external border presented by USA government in 2004	69 752	-

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MANAGEMENT AND OPERATION IMPROVEMENT SYSTEMS

Systems of Internal Control

To improve and develop the systems of internal control, the SRS is regularly performing internal audits. According to the strategic plan of internal audit 28 audits were carried out in 2005. Most significant among them were: the evaluation of computer engineering guarantee system, the evaluation of customs guarantees' control system, the evaluation of local customs clearance procedure conformity, the evaluation of business insolvency process and paying of tax arrears control system, the evaluation of excise tax administration of oil products, the evaluation of conclusion and implementation of economic contracts, control of accounts, the evaluation of management control system, the evaluation of the planning or the purchases of computers and software and the necessity of new technologies, the evaluation of intellectual property control work, the evaluation of organisation and co-ordination of taxpayers' control measures, the evaluation of the compliance of management internal control measures with the implementation of the tasks determined by the SRS anti-corruption plan, the evaluation of work quality of consideration of taxpayers' complaints and applications in the sphere of tax administration, the evaluation of movement, registration and control of documents, the evaluation of „envelope salaries" elimination control system, the evaluation of safety and control of information systems, the evaluation of administration work of Traditional Own Resources A account, the evaluation of customs debt administration process, the evaluation of the administration of Traditional Own Resources separate account (B account), the evaluation of internal control system of the implementation of co-operation contracts, the evaluation of budget implementation of 2004 (utilisation of financial resources according to programs, allocations and estimates, their conformity to the annual report), the evaluation of controls of data credibility of VAT declarations, the evaluation of audit process work quality and internal control system, the evaluation of customs control of agricultural goods' export, the efficiency evaluation of risk analysis system in customs control process, the evaluation of control system of accounting and tax calculation of physical persons – taxpayers, the analysis of recommendations and revision materials implemented by State Audit Office, the evaluation of supervision and control of their implementation, evaluation of competitions, staff selection and acceptance operation. One unplanned internal audit has been also carried out in 2005 – the evaluation of taxpayers' service quality.

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Major strategic projects implemented and launched in 2005:

- SRS Plan of Measures for the Prevention of Corruption Possibilities has been approved in February 10, 2005 for year 2005-2008;
- The Strategy of Smuggling Prevention and Combating of SRS customs institutions has been approved in March 22, 2005 for year 2005-2009;
- The SRS customs operation strategy has been approved in March 24, 2005 for year 2005-2009;
- The SRS tax administration strategy has been approved in April 15, 2005 for year 2005-2009;
- The SRS Strategy of Prevention and Detection (Combating) of Criminal Offences in the Sphere of State Revenue and its introduction plan have been approved in September 20, 2005 for year 2005-2009;
- The development of SRS Strategic memorandum for 2006-2011, SRS Client service strategy for 2006-2011, SRS Personnel management and development strategy for 2006-2011 and SRS Strategy of Corporate Identity Consolidation for 2006-2011, as well as the development of the introduction of the action plans of the above-mentioned documents was started in 2005.



TAX ADMINISTRATION

The main tasks of SRS in the area of tax administration are: to ensure collection of state taxes, fees and other mandatory payments administered by SRS in the territory of Latvia, as well as collection of taxes, fees and other mandatory payment to the European Union budget, to register and ensure records of taxpayers in accordance with the procedure provided by the legal provisions and to control conformity of registration documents with the requirements provided by the laws and the actual status, to consult taxpayers concerning questions of application of the legal provisions in accordance with the procedure stated in the legislation, to co-ordinate and carry out exchange of information between tax administrations and joint international audits in accordance with signed international treaties and legislative acts of the European Union. The National Tax Board, SRS Large Taxpayers Department (hereinafter - LTD) and SRS territorial offices in co-operation with state and local government institutions ensure the performance of SRS tasks in the area of tax administration.

The following priorities have been stated in the tax administration for the year 2005:

- ensuring the performance of the tax revenue plan;
- control of the value added tax for transactions carried out in Latvia, as well as within the European Union;
- control of personal income for natural persons;
- control of payment of salaries "in envelopes";
- improvement of administrative co-operation and mutual assistance with the European Union member states in the areas of control of the value added tax and control of taxpayers involved in movement of excise goods;
- improvement of performance quality.

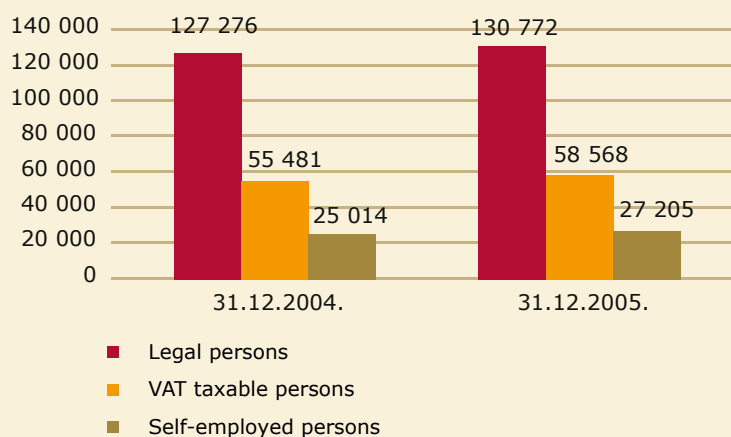
Number of taxpayers

According to the data of the Taxpayers Register on 31 December 2005, if compared to 31 December 2004, the number of taxpayers - legal persons has increased by 3 496 legal persons, the number of VAT taxable persons has increased by 3 087 persons, the total number of natural persons - employees has increased by 20 616 natural persons and has reached 939 747 natural persons at the end of the year 2005, but the number of self-employed persons has increased by 2 191 self-employed person.

TAX ADMINISTRATION

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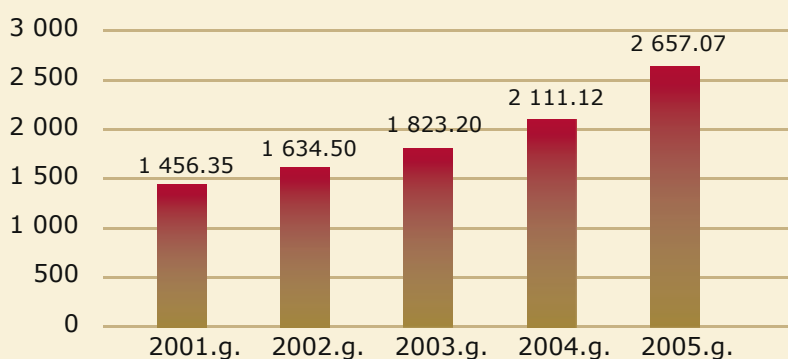
Dynamics of the number of taxpayers



Performance of budget revenues administered by SRS

Tax and non-tax revenues administered by SRS constitute in the state budget 2 657, 07 million Lats in the year 2005, that is by 545,95 million Lats or 25,9% more than in the year 2004, and this is the biggest increase during the last seven years. The performance of the revenue plan for the year 2005 is 106,4% (it should be noted that in accordance with the law "Amendments to the law "On State Budget for the year 2005" the budget revenue plan administered by SRS for the year 2005 has been increased by 174,85 million Lats or 7,5%).

Total budget revenues administered by SRS (million Ls.)



TAX ADMINISTRATION

The State Budget Revenue Administered by SRS for the year 2005

Types of taxes	Revenue (million Ls)		"Difference (the year 2005 - the year 2004)"		Perfromence of revenue against the annual plan, %
	2004.	2005.	million Ls	%	
Corporate income tax	127.85	180.67	52.82	41.3	106.1
Value added tax	486.67	677.10	190.42	39.1	109.9
Excise duty	236.93	314.03	77.10	32.5	108.6
Customs duty	17.15	19.25	2.10	12.2	105.6
The Bank of Latvia payments	2.26	0.49	-1.77	-78.2	100.0
Payments for the use of state capital	43.73	48.36	4.64	10.6	101.2
Gambling and lottery tax	7.72	9.94	2.22	28.8	103.1
Passenger car and motorbike tax	4.91	9.51	4.60	-	117.5
State fees and payments	60.86	76.24	15.38	25.3	109.7
Penalties and sanctions	10.36	9.56	-0.80	-7.7	73.2
Other non-tax revenue	6.57	11.72	5.15	78.3	132.8
State social insurance mandatory paymentys	662.39	780.62	118.23	17.8	104.5
Personal income tax	435.53	509.25	73.72	16.9	103.7
Natural resources tax	8.20	10.34	2.15	26.2	122.4
Total	2 111.12	2 657.07	545.95	25.9	106.4

Increase of tax and non-tax revenues administered by SRS in the year 2005, compared to the year 2004 was mainly influenced by:

- **improvement of tax administration process**

SRS Tax Administration Strategy for the years 2005-2009 has been developed in order to ensure continuity of the strategic process and single approach to achievement of common goals. The Strategy is developed by continuing the improvement of the on-going activities regarding improvement of tax administration, as well as by carrying out new tasks, which are determined by activities within the common market of the European Community.



TAX ADMINISTRATION

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The most important factors and performed measures, which influenced the state budget revenues administered by SRS for the year 2005:

- continuous improvement of the national tax legislation , it becomes more clear to taxpayers;
- Co-operation between the tax administration and taxpayers becomes closer, the level of services to taxpayers increases, taxpayers consultation work becomes wider, which allows taxpayers to apply the legislation properly;
- electronic declaration system (hereinafter - EDS) is improved, application of which allows submission of 96% of all returns, declarations and tax calculations. The increase in the number of documents accepted by EDS is an evidence of development of EDS system - 112 times during the period 2001 - 2005;
- increased attention is paid to de-registration of taxpayers from the VAT Taxpayers Register for failure to comply with taxpayers' obligations prescribed by the legal provisions, thus trying to prevent activities of dishonest taxpayers in due time.

- **changes in legislation**

When Latvia joined the European Union the procedure of payment of indirect taxes changed as of 1 May 2004. Starting from 1 may 2004 indirect taxes on goods imported from the European Union member states are calculated and paid by the 15 day of the following month, by creating offset of the payment term. The changes had the most significant influence on the revenues of the value added tax and excise duty, which resulted in increase of these revenues by 37% in the year 2005 compared to the year 2004.

When Latvia joined the European Union, customs legislation of the European Union became binding, thus the European Union rates of the customs duty and trade policy measures were applied to those goods, which were imported from the countries, which were not member states of the European Union. Starting from 1 May 2004, when transporting goods within the European Union, customs duty is not applied any more, but in relation to goods imported from the countries outside the European Union, the European Union customs tariffs are applied. Thus increase rates of the customs duty revenue have decreased.



TAX ADMINISTRATION

- **economic processes in the country**

In the year 2005 the increase of tax revenue was also influenced by increase in the amount of foreign trade, increase of the volumes of transported shipments, increase of retail trade turnover, as well as increase of consumer prices.

- **results of the economic development**

In the year 2005 increase of tax revenues was influenced by growth of the gross domestic product, increase in the amount of foreign trade, increase of the volumes of transported shipments, increase of retail trade turnover, increase of consumer prices, increase of the average salaries for employees, as well as increase of the number of taxpayers - legal persons.

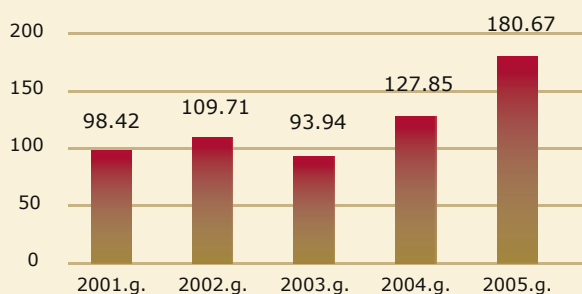
TAX REVENUE COLLECTION BY THE TYPES OF TAXES

Corporate income tax

In the year 2005 the revenue of corporate income tax constituted 180,67 million Lats, which was by 52,82 million Lats or 41,3 % more than in the year 2004 and by 10,42 million Lats or 6,1 % more than planned.

Regardless of gradual reduction of the corporate income tax rate to 15 % (in the year 2002– 22 %, in the year 2003– 19 %, in the year 2004– 15 %), corporate income tax revenue has increased, which was influenced by payment of amounts recalculated for the year 2004 and the increase of the advance amounts.

Corporate income tax revenue (million Ls)

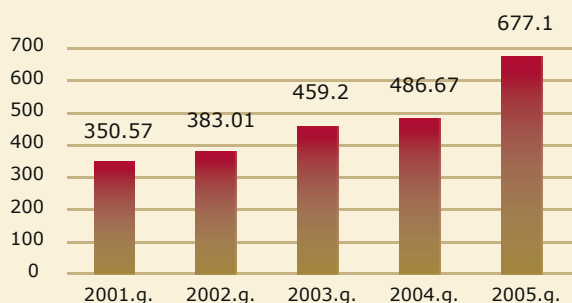


Value added tax (hereinafter - VAT)

In the year 2005 VAT revenue constituted 677,10 million Lats, which was by 190,42 million Lats or 39,1 % more than in the year 2004 and by 60,95 million Lats or 9,9 % more than planned.

The national economic processes influence the amount of VAT revenue, level of welfare of population, legal provisions, as well as flow of tax payments and the claimed refunds.

Value added tax revenue (million Ls)



TAX REVENUE COLLECTION BY THE TYPES OF TAXES

Excise duty

In the year 2005 the revenue of excise duty constituted 314,03 million Lats, which was by 77,10 million Lats or 32,5 % more than in the year 2004 and by 24,75 million Lats or 8,6 % more than planned.

Increase of excise duty revenue was basically determined by change in the excise duty rates for separate

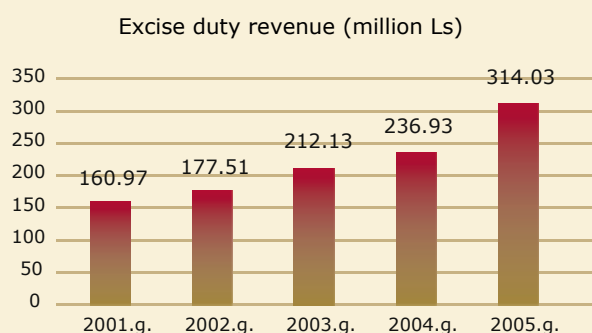
excise goods (tobacco products, oil products) in the year 2004 and starting from 1 January 2005, as well as change of excise tax payment procedure.

In the year 2005 the excise duty revenue structure has slightly changed, if compared to the revenue structure of the year 2004. Proportion of excise duty for oil products has increased by 0,7 % and constitutes 63,3 %, proportion of excise duty for tobacco products has increased by 1,8 % and constitutes 13,8 %, however the proportion of excise duty for other excise goods (non-alcoholic beverages, coffee) has decreased by 1,4 % and constitutes 1,6 %, proportion of excise duty for beer - by 0,8 % and constitutes 2,9 %, proportion of excise duty for alcoholic beverages - by 0,3 % and constitutes 18,4 %.

Excise duty revenues by groups of excise goods

Groups of excise goods	Revenue (million Ls)		"Difference (the year 2005 – the year 2004)"		Performance of revenue against the annual plan,%
	2004.	2005.	milj.Ls	%	
Alcoholic beverages	44.32	57.59	13.27	29.9	111.1
Beer	8.70	9.06	0.36	4.2	103.5
Tobacco products	28.50	43.39	14.88	52.2	118.4
Oil products	148.38	198.93	50.55	34.1	106.4
Other excise goods	7.03	5.07	-1.96	-27.9	100.0
Total	236.93	314.03	77.10	32.5	108.6

Decrease of excise duty revenue for other excise goods is explained by the fact that starting from 1 May 2004 no excise duty is collected for passenger cars and



TAX REVENUE COLLECTION BY THE TYPES OF TAXES

motorbikes, but has been replaced by passenger car and motorbike tax. In the year 2004 passenger car and motorbike tax has been collected in the amount of 9,51 million Lats.

Personal income tax and State social insurance mandatory payments

The revenues of personal income tax in 2005 amount to 509,25 mln. Lats, which exceeds the level of 2004 by 73,72 mln. Lats or 16,9 % and the fulfilment of the annual plan of revenues exceeds the projections for 18,05 mln. Lats or 3,7 %.

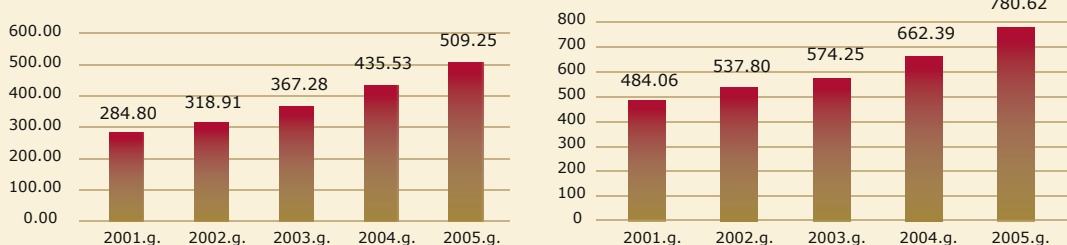
The collected state social insurance mandatory contributions in 2005 amounts to 780,62 mln. Lats, which exceeds the level of 2004 by 118,23 mln. Lats or 17,8 % and the revenue plan for the year 2005 is exceeded by 33,28 mln. Lats or 4,5 %.

In 2005 comparing with the year 2004 the amount of both revenues of personal income tax and revenues of the social insurance mandatory contributions has increased. That was due to results of the economical growth, as well as increase of average rate of wages and amount of employees.

Taking into consideration the fact that with an increase of rate of state social insurance mandatory contributions revenue in 2004 to compare with 2005, the rate of personal income tax increase has lowered by 1,7 per cent, revenues of personal income tax are influenced by the following factors:

- Non-taxable minimum as well as rate of privileged amount for dependant persons is increased from the January 1, 2005;
- Growth in the reimbursement of personal income tax according to the effective legislation. Upon submitting the income tax returns the taxpayers – natural persons are entitled to receive back a part of the paid personal income tax amounts when presenting the documents providing the expenses incurred for education and health care services.

Revenues of personal income tax (million Ls) Revenues of the state social insurance mandatory contributions (million Ls)

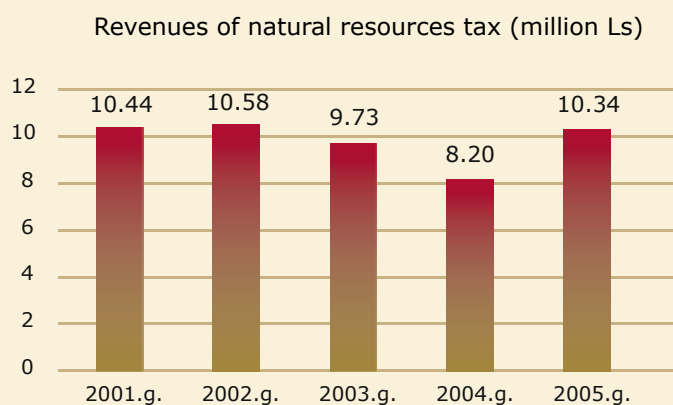


TAX REVENUE COLLECTION BY THE TYPES OF TAXES

Natural resources tax

The collected natural resources tax in 2005 amounts to 10,34 mln. Lats, which is for 2,15 mln. Lats 26,2 % more than in 2004 and for 1,89 mln. Lats or 22,4 % more than targeted figures.

The increase of the revenues of natural resources tax in 2005 as compared with 2004 can be explained by the amendments in the Law „On Natural Resources Tax“, changing the procedure of calculation and payment of the natural resources tax. As from May 1, 2004 the natural resources tax does not have to be paid at the moment of importing environmentally harmful goods and packaging of goods into the territory of Latvia – the tax is calculated and paid for the environmentally harmful goods sold or utilised for the provision of own economic activities in the territory of Latvia during the preceding quarter and for the packaging of goods until the 20th date of the following month. Thus the natural resources tax is paid once a quarter. In case the calculated tax in accordance with the basic rates does not exceed 100 Lats per year in compliance to the above law the taxpayer shall calculate and pay the natural resources tax once a year - for the whole preceding period until January 20 of the following year. Amendments to the Law provides for that started as of October 1, 2004 Natural resources tax in amount of 22 Lats is applied to vehicles for the first time registered in the Republic of Latvia. In 2005 the revenues of natural resources tax applied to vehicles for the first time registered in the Republic of Latvia amounted to 1,63 mil. Lats.





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Income from the selling of confiscated property or other property attributable to the state

Selling of confiscated goods and other property attributable to the State is another source of revenues into the State budget. In 2005 alone, 3 850 rulings were made concerning the attribution of goods and property to the State and in this way 241,8 thousand Lats were collected into State budget and into the accounts of proper state institutions. Of this amount 74,7 % were the revenue from the selling of daily commodities attributable to the State and 10,7 % came from the sales of automobiles. Out of the total revenues 98,1 thousand Lats or 40,5 % were paid into the State budget.

In 2005 as a result of control measures carried out by state institutions 125,1 thousand litres of alcohol and 56,4 mil.cigarettes were taken out of circulation and destroyed in accordance with the existing legislation. The receipts from the sales of seized fuel in 2005 amounted to 8,9 thousand Lats. In 2005 the informers of the seized goods and property were paid a remuneration of 47,5 thousand Lats

Results of Tax Control

To make sure that taxpayer has correctly calculated, timely made correct state tax, fees and other mandatory payments determined by State, into the state budget, the SRS carries out regular control measures. In accordance with the SRS Tax Control Strategy for year 2004-2006, the following tax control measures were used in tax control process – tax auditing, thematic check, supervision and inspection. In 2005 the SRS has carried out at least one tax control measure for 25905 legal persons and 4290 physical persons. From all the legal persons in 2005 the thematic checks of the tax control measures carried out by the SRS were 67.7%, taxpayers' inspection – 29.1%, tax auditing – 2.7% and supervision – 0.5%.

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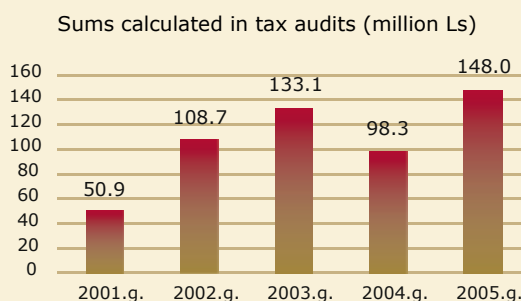
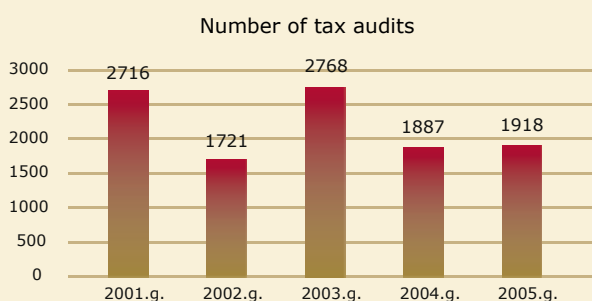
Tax audits

The SRS in 2005 has performed 1 918 audits, from which 1 214 or 63% are the tax audits of legal persons and 704 or 37% tax audits of physical persons. From the number of the tax audits done in 2005, successful were 1 751 tax audit, effectiveness is 91% - which is for 5% higher than in 2004 (86%).

In 2005 the SRS has additionally assessed 148.0 millions of Lats or by 50% more than in 2004.

The largest proportion in additionally assessed tax sum is to VAT – 60.7 millions of Lats (41% from total additionally assessed sum), corporate income tax – 6.4 millions of Lats (4%) and excise tax - 3.2 millions of Lats (2%). From all the tax audits of physical persons (704), the excise tax calculation to physical persons has been made in 507 tax audits about confiscated excise goods. In accordance with Article 22 of the law „On Personal Income Tax“, the SRS in 2005 has requested supplementary tax returns from 494 physical persons, they have been received from 385 physical persons (including also the supplementary tax returns requested in 2004). The assessment of taxable income has been applied to 126 physical persons, additionally 1.4 millions of Lats have been calculated, including personal income tax and penalty fee in the amount of 0.4 millions of Lats.

Two simultaneous tax audits have been carried out in 2005 in co-operation with tax administrations of Sweden and Estonia.



TAX REVENUE COLLECTION BY THE TYPES OF TAXES

Thematic checks

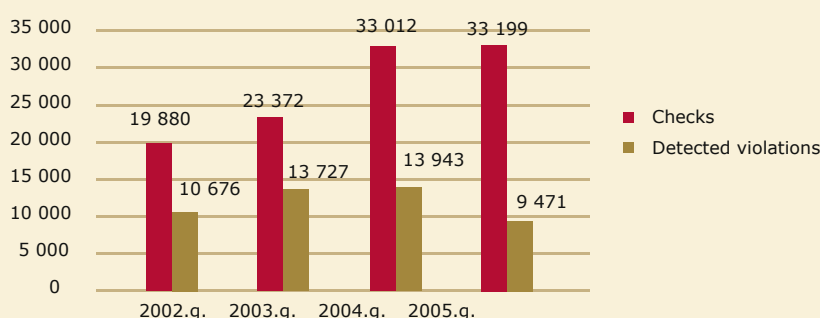
In 2005 SRS has carried out 33 199 thematic checks, which is more than in 2004 (33 012). The effectiveness of thematic checks carried out in 2005 is 61%, which in comparison to 2004 (58%), has increased by 3%. Thematic checks had been carried out in relation to 22 551 taxpayers, including 20 515 legal persons and 2 036 natural persons.

In 2005 the SRS have mostly checked employers (17 363), accounting of companies (11 398) and retail trade (10 236).

Penalties applied to detected offences in thematic checks:

- In total for 9 471 offences detected in the thematic checks the penalty was applied in amount of 689,0 thousand of Ls in accordance with the Code of Administrative offences in Latvia;
- In 5 164 cases the record keeping was closed applying the verbal reprimands on petty offences;
- In 1 236 cases warning on the termination of economic activities were expressed;
- In 71 cases the economic activity was terminated in order to carry out the special checks.

Number of thematic checks and detected violations therein



Checks of employers

In 2005 SRS has carried out 17 363 checks of employers, from which in 976 checks the offences were detected, including:

- In 471 cases or 48% from salaries of employees the taxes were calculated and paid improperly;



TAX REVENUE COLLECTION BY THE TYPES OF TAXES

- In 200 cases or 20 % the work contracts with employees were not concluded. On offences of employers detected in the thematic checks in 364 cases the penalty was applied in amount of 45,8 thousand of Ls, as well as 42 warnings on termination of economic activity were expressed, but in one case the economic activity was terminated in accordance with the Code of Administrative offences in Latvia. In checks of employers also other control state institutions has been involved. In 2005 SRS has carried out the checks of employers in co-operation with State Labour Inspection (612 thematic checks, effectiveness – 11%), with Economic Police (461 thematic checks, effectiveness – 3%) and with State Police (178 thematic checks, effectiveness – 7%).

Checks of accounting

From 11 398 checks of accounting of companies carried out by SRS, in 4 863 cases or 43% accounting in companies has not been organised according to legal provisions. For these detected offences the penalty in 1 894 cases was applied in accordance with the Code of Administrative offences in Latvia in amount of 204,7 thousand of Ls.

Checks of retail trade

In 2005 SRS has carried out 10 236 thematic checks, from which the offences detected in 6 710 cases or 66%. In these checks mostly the offences related to violation of procedure of circulation of goods accounting and waybills (in 2 908 cases or 43%), non-registering of revenues (in 693 cases or 10%), as well as the offences related to the use of cash registers has been detected.

On detected offences in checks of retail trade in 4 318 cases in accordance with the Code of Administrative offences in Latvia the penalty was applied in amount of 250,0 thousand of Ls.

Checks related to draw up and use of waybill

In 2005 SRS has carried out the 5 847 checks related to draw up and use of waybills, from witch offences have been detected in 2 321 cases or 40%. Mostly the offences were the violation of draw up of waybills – 1 233 cases and violation of procedure of accounting and deposit of waybills – 668 cases.



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Inspection of taxpayers

In 2005 SRS conducted 15 420 inspections of 11 981 taxpayers, from which:

- 2 614 inspections of taxpayers were conducted who have tax arrears;
- 2 139 inspections of taxpayers were conducted who had requested refund of the overpaid VAT;
- 1 049 inspections of taxpayers were conducted who do not observe the discipline for submitting of reports or declarations;
- 3 303 inspections conducted after the request of another SRS structural unit;
- 345 inspections conducted after the information given by the third party;
- 259 inspections were co-ordinated by the SRS Excise Goods Department;
- 5 711 inspections conducted due to other reasons.

Supervision of economic activity

In 2005 the SRS has performed 318 observations of business activities of 173 taxpayers including 115 legal persons and 58 natural persons. Most observations – 58 % from all the observed legal persons – were performed on taxpayers whose basic activity is trade, 14 % - manufacturing enterprises, 5 % - taxpayers involved in timber business, 5 % - construction companies and 18 % on other taxpayers.

Tax refunds

- Alongside with the increasing revenue of VAT the amount of the overpaid VAT has also increased. Amount of the overpaid VAT as on January 1, 2006 is 213,90 mill. Lats, which is 56,85 mill. Lats or 36,2 % more than on January 1, 2005. Increase of the overpaid sum was determined by the increasing external trade as well as the growing extent of construction in the country. Alongside with the increasing overpayment, the amount of VAT refund is increasing as well. The sum is paid into the taxpayer bank accounts or used for payment of other taxes. In 2005 288,86 mill. Lats were refunded as an overpaid VAT refund and paid into the bank accounts of taxpayers or used for covering of other tax payments, which is



TAX REVENUE COLLECTION BY THE TYPES OF TAXES

50,74 mill. Lats or 21,3 % more than in 2004. Based on requests for refund of the overpaid VAT there were 27 899 credibility checks performed. In 2005 there were decisions adopted to deny the refund of the overpaid VAT in the amount of 16,6 mill. Lats or 5,5 % from the requested amount.

- In 2005 SRS has received 30 claims for the refund of excise tax in the amount of 430,1 thous. Lats from enterprises, which use the fuel for heating purposes. During the verification of refund claims 3 violations were established that reduced the refund by 8,4 thous. Lats. In 2005 refunds to taxpayers using fuel for heating purposes were disbursed in the total amount of 408,5 thous. Lats.
- In 2005 the SRS received 160 764 income declarations claiming refund of personal income tax in conformity with attachments on justified expenses (on medicine and education). 153 176 declarations or 95 % of all submitted declarations were verified, and in 13 208 declarations delinquencies were established accordingly reducing the amount of refund by 255,5 thous. Lats. In personal income tax declarations submitted for year 2004 the amount of justified expenses was 32,65 mill. Lats. In its turn the refunded amount was 22,34 mill. Lats, which is 5,58 mill. Lats of refundable amount in the form of personal income tax. Furthermore 58 526 income declarations were submitted where the income tax was reduced. After the examination of these declarations delinquencies were established in 3 952 declarations and as a result of this refund of personal income tax was reduced by 58,3 thous. Lats. Altogether in 2005 the SRS has refunded 8,24 mill. Lats based on the information provided by the taxpayers in annual income declarations about reduction of the personal income tax. It is 1,42 mill. Lats or 20,8 % more than in 2004.
- In 2005 2 727 applications were submitted about the refund of enterprise income tax in the amount of 9,5 mill. Lats. In order to verify the validity of the overpayment of enterprise income tax 2 215 inspections were conducted and delinquencies were established in 206 cases. In total 9,49 mill. Lats were paid into bank accounts of taxpayers or used for the payment of other taxes as enterprise income tax refund in 2005.
- In 2005 SRS has received 23 623 applications from producers of agricultural goods about the refund of excise tax for purchased fuel in the amount of 11,6 mill. Lats. After inspecting the validity of the tax refund delinquencies were

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established in 2 151 cases. Hence the excise tax refund was reduced by 346,9 thous. Lats. The amount of refunded excise tax to producers of agricultural goods for the purchased derv (gas oil) has increased by 28,4 % in 2005 compared with 2004 (8,93 mill. Lats in 2004, 11,47 mill. Lats in 2005). In its turn the amount of requests for excise tax refund (in hectares) to the producers of agricultural goods for purchased derv (gas oil) has decreased by 0,2 % in 2005 comparing to 2004 (711 642 hectares in 2004, 710 119 hectares in 2005).

Administrative Co-operation and exchange of information

In order to strengthen combat against tax avoidance and timely detect tax fraud cases the system of information exchange and administrative Co-operation with other government institutions and professional organisations, and also with tax administrations of other states has been improved.

Among the priorities in international exchange of information most important is the exchange of information in the area of direct taxes between Republic of Latvia and member states of European Union according to the June 3, 2003, Council Directive 2003/48/EK concerning taxation of interest income from savings as well as December 19, 1997 Council Directive 77/799/EEK concerning mutual assistance by the competent authorities of the Member States in the field of direct taxation and taxation of insurance premiums and also contracting countries with whom Republic of Latvia has concluded international agreements about prevention of double taxation and tax evasion. Currently exchange of information takes place in accordance with tax conventions (currently 38 tax conventions in force), contracts on mutual administrative assistance and automatic information exchange, as well as spontaneous exchange of information within the framework of contract. Currently contracts on mutual administrative assistance have been concluded with tax administrations of Sweden, Lithuania, Denmark and Finland Ministry of Finance. A contract on spontaneous exchange of information has been concluded with tax administration of Netherlands.

In 2005 information exchange with various state tax administrations in the area of direct taxation was accomplished 513 cases and within the framework of automatic information exchange information about 11 000 persons was received.

In 2005 in the area of VAT 482 requests of information (SCAC forms) has been



TAX REVENUE COLLECTION BY THE TYPES OF TAXES

sent to other member states of European Union, 164 replies have been sent to requests of other members of European Union, from other member states of European Union 189 requests of information and 441 replies to information requests have been received, processed and sent to SRS territorial offices. In 2004 within the framework of tax treaties information exchange 855 information exchange requests were received and 855 information requests were sent and also co-ordination and processing in tax collection cases was performed, but correspondence in issues of information collection with departments amounted to about of 1 800 requests.

In the area of excise taxes 809 replies were sent to institutions of European Union tax administrations, taxpayers of Latvia etc. about information registered in Latvia's "SEED" register as well as regular exchange of information was performed in the area of excise taxes with members of tax administrations from other states of European Union within the framework of procedures set by European Community .389 excise early warning (EWSE) reports were sent and 440 were received, 58 requests of excise goods movement verification system (MVS) were sent and 53 were received.

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The main tasks of the SRS in the area of customs are to ensure the implementation of common customs policy of the European Union, to collect taxes, fees and other mandatory payments into the budget of Latvia and the European Union, to control the compliance with the legal provisions on customs matters, to ensure correct application of customs regulations and equal attitude to all customers, thus promoting international trade. The structural units of the SRS within whose competency is the implementation of customs policy – the SRS National Customs Board, the SRS Customs Criminal Board, the SRS Rīga Customs Regional Office and the SRS territorial offices' Customs Departments (further in the text – the Latvia's Customs Service), in co-operation with other public authorities by stopping the smuggled goods on border and preventing the import and export of conventionally prohibited commodities, promote public health and security as well as protect the market.

The SRS priorities for the year 2005 in the area of implementation of customs policy were determined in conformity with the main strategic objectives specified within the area of customs policy implementation:

- To protect the public, economy and environment by preventing and disclosing the offences against customs legislation and the criminal offences;
- To improve the international trade environment;
- To calculate correctly and to collect the customs payments due;
- To ensure effective operation of customs service.

By successful operations in 2005 parallel to customs services of other EU member states, the SRS customs structural units have proved their stability and professional capacity, ensuring free Intra-Community movement of goods and providing customs control on the external border of the EU. Since Latvia's accession to the EU the SRS customs structural units have made their input into the common budget of the EU, transferring 75% from the calculated total amount of Traditional Own Resources into the budget of the European Union. In 2005 the SRS had extremely good results in the area of customs control and protection of intellectual property rights. Besides that, a whole range of activities were carried out to improve the business environment, improving the co-operation with traders, providing them with a variety of various simplifications and relieves of customs clearance procedure, correctly applying the

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provisions of the existing legislation, implementing new and modernising the existing customs information systems and improving the control post facilities and client service halls.

Fulfilment of the plan of revenues collected by the SRS customs structural units

Tax type	Revenues (thous.Ls)		Increase or decrease (2005 -2004)	
	2004	2005	(thous. Ls)	%
Value Added Tax releasing goods for free circulation	288 374,56	186 696,57	-101 677,99	-35,2 %
Excise tax on import for free circulation	131 684,9	19 411,93	-112 272,97	-85,3 %
Customs tax	17 146,8	19 246,82	2 100,1	12,2 %
Paid in state budget in total	437 206,26	225 355,32	-211 850,94	-48,5 %

When the Republic of Latvia accessed the European Union, the amount of the value added tax collected by the SRS customs structural units on release of goods for free circulation was considerably reduced. Beginning with January 1, 2005 the procedure of excise tax administration and accounting was changed, providing that from that date on the SRS Excise Goods Department is responsible for the excise tax administration and accounting. As before the January 1, 2005 the administration of excise tax for oil products – the collection, accounting and control – was the responsibility of the SRS National Customs Board, part of the businesses already had paid the excise tax due into the accounts administered by the National Customs Board, so these amounts had to be returned back, and this is the reason for the negative figures in the table for the excise tax collection.



CUSTOMS ACTIVITIES

Administration of Traditional Own Resources

By the accession to the European Union Latvia confirmed its readiness to participate in financing of the EU budget. One of the sources to finance the European Union's budget is the so-called Own Resources, including the Traditional Own Resources. The part of the European Union's Traditional Own Resources that is collected by customs offices, is created by the following:

- Customs tax (applied to goods imported from third countries);
- Agricultural payments (payments that have been introduced in conformity with the common agricultural policy);
- The final anti-dumping payment (payments that are applied to goods imported into the territory of the EU with dumping prices);
- Final compensation payment (payments that are applied to goods imported into the territory of the EU and for the production, transfer, processing and export of which have been granted direct or indirect subsidies).

The SRS National Customs Board is responsible for the accounting of the Traditional Own Resources and their control in conformity with the provisions of the EU legislation, the so called „A” and „B” accounts principle. On the basis of the monthly report on „A” account prepared by the SRS National Customs Board, the Ministry of Finance prepares a payment order and forwards it to the State Treasury to make the transfer into the EU budget. According to the legal provisions of the European Union the member state retains 25% from the calculated amount of the Traditional Own Resources to cover the costs of their collection.

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Payments into the account of the European Account of the Bank of Latvia

Reporting period	Period of drawing the report and transferring the resources	The amount transferred into the European Account of the Bank of Latvia (Ls) for the respective period of 2004	The amount transferred into the European Account of the Bank of Latvia (Ls) for the respective period of 2005	Increase in comparison with 2004 (%)
January	March	-	872 685	-
February	April	-	1 224 645	-
March	May	-	1 289 570	-
April	June	-	1 442 046	-
May	July	786 268	1 153 173	47
June	August	650 539	940 820	45
July	September	863 041	963 546	12
August	October	930 602	1 306 103	40
September	November	946 804	1 152 373	22
October	December	1 053 409	1 548 901	47
November	January	1 050 436	1 368 656	30
December	February	1 227 048	1 503 330	23
Total:		7 508 147	14 765 848	



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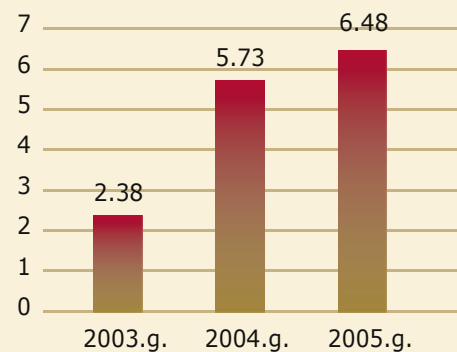
The results of control activities in customs

Customs audits

To ensure effective SRS operation in the implementation of customs policy, to check the correctness of filling in the declarations and to reduce the time needed for the clearance of goods, the SRS makes control activities after the clearance of goods also. In 2005 the SRS has made 721 customs audits, from them 98 were customs audits of companies and 623 were customs audits of transactions. During these audits in 91% of them offences against customs regulations were discovered. In the result of the audits in

2005 the SRS has assessed customs debt, arrears of other taxes administered by customs offices and penalty in total for 6,5 million Ls. If compared with the results of the previous – 2004 year, the amount assessed in the result of customs audits has increased by 13 %.

Dynamics of the customs debt, other taxes administered by customs offices and penalties, assessed by the SRS (million Ls)



Physical control

To ensure the compliance with customs regulations, the SRS officials at customs control posts check the accompanying documents and select freights for physical controls. In case if customs offences are discovered, in 2005 the SRS officials have issued 1 282 notices of administrative offences, as a result of what in conformity with the Code of Administrative Offences of Latvia for violation of customs regulations legal and natural persons were given penalties for in total 137,4 thous. Ls.

The main typical administrative offences:

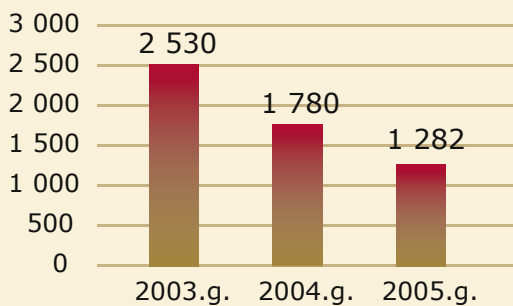
- importation of non-declared goods hiding them in private luggage and personal cars (non-declared goods are mainly imported by private persons);
- Goods most frequently imported without declaring are small amounts of cigarettes and alcoholic beverages, as well as sugar and items of everyday use;



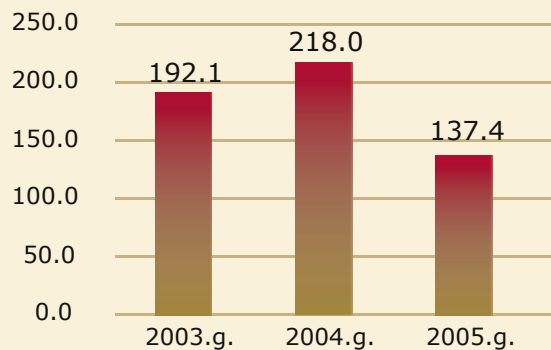
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- Fuel is mainly imported in additional specially mounted fuel tankers, as well as in fuel tankards hidden in the passenger compartment or luggage compartment of transport vehicles;
- The documents presented to customs offices contain false information – in accompanying documents incorrect commodity codes are stated, the value or weight of the goods is incorrect.

Number of Administrative offences' statements issued by the SRS on offences against customs regulations



Dynamics of penalties issued by the SRS for violation of customs regulations(thous.Ls)

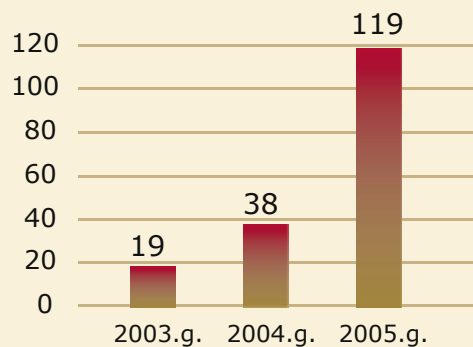


Protection of intellectual property

Within the activities on protection of intellectual rights, in 2005 the SRS has received the applications of 230 legal subjects with requests to protect intellectual property, from them in 146 cases the requests were about the protection of the European Community trademarks, design samples and plant species.

In 2005 the SRS officials during control activities on customs matters in 119 cases have detained pirate goods or goods with falsified brand marks, or counterfeit goods. If compared with the previous years the number of cases when counterfeit goods were detained has considerably increased, and that can be explained both by improvement of customs activities and by increase of the amount of falsified goods transported.

Dynamics of counterfeit goods seized by the SRS





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In total in 2005 159 061 units of counterfeit goods were detained, with the total value appr. 5,1 million Ls. In total in 2005 the penalties applied for violation of legal provisions on intellectual property rights have been issued for 17 400 Ls.

Most frequently detained counterfeit goods are clothes and footwear, pirate CDs with music, and spare parts of personal cars Audi, Ford and BMW. Besides that, the falsifiers prefer to sell goods of cosmetics and perfumery labelled with brand marks of "Lancôme" and "D&G", as well as accessories of "Nokia" mobile phones. Clothes and footwear most frequently are labelled with false brand labels of "Nike", "Adidas", "Reebok", "Umbro" and "Puma". In majority of cases the freights with falsified goods come to Latvia from East Asia and their end destination most often is the countries of the Union of Independent Countries.

Combating of drug smuggling

In physical controls of freight, luggage and regular mail deliveries the SRS dog handlers with specially trained dogs participate on regular basis. Comparing with 2004, when the SRS dog handlers detained narcotic substances in four cases, in 2005 the SRS dog handlers detained narcotic substances in 31 case. In total with the assistance of the dogs there were detained in 2005:

- marijuana – 13,4 g;
- hashish – 17,6268 g;
- methadone – 0,3 g;
- poppy straw – 415 g;
- psychotropic substances - 0,30015 g.

In co-operation with the State Police and the Department of Imprisonment Facilities were detained:

- marijuana – 8,0095 g;
- cocaine – 0,2154 g;
- psychotropic substances – 299,934 g.

In addition to the activities of dog handlers in the area of combating smuggling of narcotic substances, the SRS officials without the assistance of the trained dogs in the result of customs control activities in 3 cases have detained narcotic substances:

- marijuana – 3,4023 g;
- hashish – 9,6947 g;

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- MDMA – 0,03 g;
- methandienon – 9 990 tablets.

Control of the goods of strategic importance and dual usage

According to the definition given by the Law on circulation of goods of strategic importance the goods of strategic importance are systems, equipment, parts of them, materials, chemical substances, objects, software and technologies, that are included in the lists of goods of strategic importance approved by the Committee of Control of Strategic Importance Goods, or in other words – these are goods, software and technologies included, that can be used both for civil and military purposes, and to which all those goods belong that can be used both for civil objectives and for military objectives and for production of nuclear weapons and other type of nuclear explosive devices production. For transfer of these goods it is necessary to have specific licences that are issued by the Committee of Control of Strategic Importance Goods.

In 2005 the SRS has issued six administrative offence statements on violation of the regulations on movement of goods of strategic importance and of dual usage, and in case of one of these administrative offences a penalty was determined at the size of 6 thous. Ls, in 5 cases the cases were closed. Within the administrative cases there were detained four freight hauliers, four semi-trailers, 2 355 kg parts of battle weapons and 51 unit of pneumatic weapons.

Movement control of conventionally protected goods

On customs control of the luggage in customs posts of Riga International Airport, passenger ports and other customs control posts the SRS officials discover items the movement of which across the borders for private needs is regulated by the Washington convention „The Convention in International Trade in Endangered Species of Wild Fauna and Flora” – CITES, and it is possible only with a CITES permit and the mandatory veterinarian or fito-sanitary permits.

In 2005 the SRS officials have discovered 12 offences against the Washington convention „The Convention in International Trade in Endangered Species of Wild Fauna and Flora” – CITES, as a result of what the penalty applied has been for the amount of 499 Ls. In the result of the disclosed offences the items of 25 species were confiscated from natural persons:



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- fragments of coral colony – 14 pieces.;
- shells – 4 pieces;
- boots of python’s hide – 4 pairs;
- bag of crocodile’s hide – 1 piece.;
- purse of monitor’s lizard skin – 1 piece.;
- turtle shell – 1 piece.

2000



Python leather boots



Protected species Strombus gigas shell

2001

2002

2003

2004



Souvenirs made from protected species corals Pocillopora sp. and Fungia sp

2005

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2007



Protected turtle species Cheloniidae spp. shell

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Investigation of criminal procedures on customs offences

The investigation of criminal procedures and operational activities to discover and prevent criminal offences on customs matters is the responsibility of the SRS Customs Criminal Board. The priorities of the actions of the SRS Customs Criminal Board in 2005 were combating of drug smuggling and organised crime.

The SRS Customs Criminal Board in 2005 in total has evoked 79 criminal procedures, this being nearly two times more than in 2004. Number of cases sent for criminal prosecution was 32, and this is by 13 cases or by 41% more than in 2004. On December 31, 2005 the SRS Customs Criminal Board was working with 149 criminal procedures.

In 2005 several cases of illegal transfer and storing were discovered. On the discovered criminal offences there were evoked five criminal procedures, and from them three have been sent to the prosecutor's office to evoke criminal persecution. Within the said criminal processes there have been seized:

- 6,7 million cigarettes of various brands;
- 36 tons of tobacco;
- Three sets of equipment for producing cigarettes in the value of 1 100 000 USD, 766 750 EUR and 3 300 Ls.

At the beginning of 2005 the SRS Customs Criminal Board has more intensively organised operational controls related to potential offences in the branch of meat processing. In the result of the undertaken controls a new VAT refund fraud scheme has been discovered and stopped. In the area of organised crime combating in 2005 the SRS customs offices have stopped or caused substantial inconveniences for the activi-

The results of the SRS Customs Criminal Board in investigation of criminal procedures



CUSTOMS ACTIVITIES

ties of seven organised groups. The activities of these groups were mainly related to smuggling of narcotic substances as well as cigarettes and tobacco, and to production of cigarettes. The value of goods seized from the criminal groups was 1 535 000 Ls.



1,8 million cigarettes detected in the load of newspaper paper



2,9 million cigarettes detected in the ambush made in cardboard

The most important criminal processes evoked in 2005 were the following:

- At the end of February 2005 the SRS Customs Criminal Board initiated a criminal case on a large-scale fraud, having resulted in losses for the state at the amount of appr. 0,7 million Ls. The fraudulent activities were performed by a company that within the period from September 2003 till December 2004 sold IT software to two offshore companies, artificially seven times increasing the value of the goods;
- At the middle of September 2005 the SRS Customs Criminal Board has sent for initiation of a criminal prosecution a criminal case on the abuse of official's position by two SRS officials. One SRS official had knowingly supported large

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scale tax refund fraud, the other official – had been negligent towards the official job responsibilities – filling in and clearing the customs declarations for several non-existing export freights of a company registered in Latvia at the value of 77,0 thousand Ls, falsifying the documents. Within the framework of the said criminal prosecution it has been requested to initiate criminal persecution of two entrepreneurs;

- At the beginning of October 2005 the personnel of the SRS Customs Criminal Board went for control on the vessel "Nauta". It was discovered that on October 10, 2005 via Liepāja customs control post without declaring and by use of falsified customs documents 150 tons of sugar were imported into the state. On the detected offence the criminal procedure was initiated, and in December 2005 it was forwarded for initiating a criminal prosecution;



150 tons of sugar taken out of circulation within the framework of criminal procedure

- At the end of October 2005 the SRS Customs Criminal Board asked the Prosecutor's Office for Customs Matters to evoke criminal persecution on a criminal case where the investigation was on-going for nearly five years. The criminal case was evoked against several tens of SRS, Border Guards and Sanitary Border Inspectorate officials on supporting and concealing the fact of meat smuggling, malevolent use of service position and inactivity, having resulted in heavy consequences and substantial losses for the state.



CUSTOMS ACTIVITIES

Investigation of criminal processes on smuggling of narcotic and psychotropic substances

The number of discovered cases of drug smuggling in 2005 is the biggest in the history of customs. In total in 2005 in the SRS Customs Criminal Board there have been evoked 23 criminal procedures on smuggling of narcotic and psychotropic substances, this being by 16 criminal procedures more than in 2004. The evoking of criminal prosecution has been requested in 17 criminal procedures on smuggling of narcotic and psychotropic substances.

The amounts of narcotic and psychotropic substances seized within the criminal procedures

Name of the narcotic and psychotropic substance	2004	2005
Hashish	2,2146 grams	34,9 grams
Cocaine	0,01 gram	116,4 grams
Marijuana	20,6 grams	13,4 grams
Poppy straw	360 grams	5435 grams
Leaves of coke tree	16,9125 grams	-
Diazepam	75 tabl. and 10,5 amp.	-
Codeine	87 tabl.	19,2 grams
Morphine	5 amp.	-
Pharmaceuticals containing narcotic and psychotropic substances	435 tabl. and 40 apm.	-
Non-declared Pharmaceuticals	281 tabl. and 360 amp.	-
Ephedrine	-	9 002 grams
MDMA „ecstasy“	-	3 991,58 grams
Metamfetamin	-	1 044,1 gram
Amphetamine	-	51,15 grams
Fenazepam	-	12,5 grams
Phenobarbital	-	24 grams

Most important criminal cases/criminal procedures discovered in 2005:

- In March 2005 the personnel of the SRS Customs Criminal Board in co-operation with the representatives of State Police in Gulbene region discovered a laboratory producing synthetic narcotic substance - methadone (substitute of heroin);

CUSTOMS ACTIVITIES

- On April 2005 the personnel of the SRS Customs Criminal Board discovered the largest amount in the history of the customs – more than nine kg (9002 grams) of ephedrine, that was hidden in a freight of clothes and footwear, containing counterfeit goods also, imported from Bulgaria;
- On April 2005 the personnel of the SRS Customs Criminal Board in co-operation with the personnel of Rīga city Central Criminal Police Department stopped the operations of drug smuggling channel from West European countries to Latvia. In the result of the co-operation the shipment of narcotic substance MDMA “ecstasy” tablets was seized – nearly four kg (3 989,5088 grams);
- On October and November 2005 the personnel of the SRS Customs Criminal Board in co-operation with the State Police Organised Crime Combating Department and colleagues of Lithuanian Criminal Police Department stopped the activities of two channels of smuggling narcotic substances from Lithuania.



Ephedrine detected in the load of clothing and footwear



Load of „Ecstasy” drugs



CUSTOMS ACTIVITIES



Metamphetamine

2000

2001

Trade facilitation

2002

In 2005 more than 800 tariff quotas were available to the traders, providing the possibility to import the specific goods from the third countries with reduced or zero rate of customs tariff. During 2005 840 tariff quota applications were received, controlled and processed, and in 827 cases the quotas were granted at the size of 100 %. Most frequently asked for were tariff quotas for foodstuff import – fish and fish products from Norway, Russia and Thailand, wines from Bulgaria and Romania, instant coffee from USA and Brazil. By use of tariff quotas there were imported into Latvia appr. 2 282 tons of fish and their products, 1 110 742 litres of wine, 570 tons of oranges, 315 tons of coffee.

2003

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Improvement of operational quality

2006

Introduction and improvement of information systems

2007

The use of modern information systems is of great importance for the improvement of operational quality of customs matters, and for this reason the SRS on regular basis implements new information systems and improves the existing ones. In 2005 a new computerised transit system (NCTS) implementation was finished. On July 21, 2005 Latvia joined those European Union states that have introduced electronic Guaranty Management System (GMS). This system provides the possibility for customs offices to make electronic controls the validity and use of transit guaranties, thus reducing the risk of smuggling and the possibility to cause losses to the state budget. For the

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CUSTOMS ACTIVITIES

traders the new system provides the possibility to reduce the formalities of controls of guaranty's adequacy, thus simplifying the beginning of transit procedure in all the EU countries where the system already is in operation.

The optimisation process of customs control posts and facilitation of quality of services provided.

In 2005 several client service halls were developed – in the renovated SRS Rīga Customs Regional Office building in Citadeles street 1 and in merged customs control posts in Buļļu street 74 and Uriekstes street 3. Besides that, four new, modern customs control posts, oriented towards the convenience for the clients, (further in the text – CCP) in conformity with the EU requirements are developed – Rīga Freeport CCP, Daugavpils Freight Terminal CCP, Rēzekne Freight Terminal CCP and Ventspils Trade Port CCP. In 2005 the construction of a customs control post in Šķīrotava railway station has been started.

One of the main tasks after the accession of the European Union is the implementation of a high quality and secure border control on the external border of the EU, meaning such a control that both people and goods would be controlled in conformity with all the requirements. To ensure the possibility for freight to cross the borders via the border posts, those border posts shall be in conformity with the requirements set by the EU. For Latvia to be able to comply with these requirements, since 1995 the State Investment Program Project is being implemented – „OP 03 Customs posts on borders”. The financial resources for the project are granted from the state budget. Within the said project in 2005 the project of railway carriage weighing for customs control post “Šķīrotava”. The railway weighs are planned to provide the SRS customs officers with a possibility to weigh the carriages of a train during the customs control with the purpose to determine the customs value of the commodities and to calculate customs tax, that is one of essential control activities of customs. In 2005 the planning of a scaffold bridge for oil product control in Rēzekne CCP was finished. The scaffold bridge is necessary to provide the possibility for a customs official to make customs control in compliance with job security requirements – to take samples of oil products, chemical substances and other samples from the tankers and other reservoirs of a train.

For supply of services to businessmen and natural persons in the SRS territorial customs offices in 2005 two customs posts have been merged, thus creating a single

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merged customs control post 0265. In customs control post in Rīga Free Port an electronic queue accounting system has been installed to ensure fair supply of services to the freight hauliers in regular sequence, eliminates any possibility for potential suspicions and disputes among the freight hauliers about the services supplied to persons out of the queue, and provides a possibility to measure the time of supply of services.

Taking into account the fact that with Latvia's accession to the EU the border with the Republic of Lithuania and the Republic of Estonia has become an internal border of the EU, and that there is free movement of goods across these borders without customs control, in 2005 the following customs control post buildings and infrastructures were forwarded to the Border Guards:

- Meitene CCP;
- Grenctāle CCP;
- Ainaži CCP;
- Valka CCP;
- Veclaicene CCP;
- Rucava CCP;
- Subate CCP;
- Medumi CCP.

Most important customs projects implemented and started in 2005:

- Within the framework of the European Union Phare project No. 2002/000-590-11-01 "Strengthening of Customs administrative capacity by implementation of mutually compatible customs strategy and European Union databases" there were ongoing activities to develop, implement and test the final version of the Integrated Tariff Management System (further in the text – ITMS). The implementation of ITMS will be finished in 2006.
- In co-operation with European Integration and Economic Development Agency in Austria Phare 2003 Twinning Light project No. LV/03/IB/FI/02-TL "Improvement of post-importation controls" has been implemented where the Latvia's system of post-importation controls was evaluated, including the organisational structure, methodological instructions and risk management technique, and recommendations were given for its improvement.



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- On November 7, 2005 the co-operation agreement was signed with Swedish Customs within the Phare 2003 project No. LV/2003/IB/FI-08TL "Improvement of Customs Analytical activities" with the objective to develop customs analysis and to ensure effective risk management, to enhance the disclosure, combating and prevention of violations of customs regulations on internal and external borders of the European Union.
- Active participation has been started in "Customs 2007" exchange program, contacts have been established with the Exchange co-ordinators of customs services of other countries. Within the said program the exchange of experience has already been in the area of dog handlers, physical controls, in work with x-ray scanners, on protection of intellectual property rights and on implementation and use of Electronic control system of guaranties.
- Within the European Union Phare project No. 2003/004-979-08-01 "Integrated tariff management system and risk assessment" on April 5, 2005 a bilateral Twinning Agreement has been concluded, and the requirement specifications are developed for Risk Information Management System and for Export Control System, as well as the experts from Sweden and Denmark have provided assistance in the development of the final version of ITMS, its implementation and testing. Besides that, the state procurement procedure was organised and Service agreement concluded for the development of Risk Information Management System, and the development has been already started. The system will be developed till November 30, 2006.
- Within the European Union Phare project No. 2003/004-979-03-01 "Development of Agriculture product market administration system" the requirement specifications are developed for Data exchange system between the State Revenue Service and Rural Support Service, the state procurement procedure has been organised, the service agreement is concluded for the development of the system, and the system's development has already commenced. The system will be developed till November 30, 2006.



COMBATING FINANCIAL CRIME

The main objectives of SRS Finance Police department are to detect and prevent criminal offences in the sphere of state revenues and in the activities of SRS civil servants and employees, and also to perform investigation in criminal cases on criminal offences detected in the area of state revenues as well as in the activities of SRS civil servants and employees.

SRS Finance Police department priorities in 2005 were:

- Combating of organised crime
- Combating legalisation of illegally obtained money resources
- Combating tax fraud
- Combating criminal offences related to "envelope salaries"

Optimisation of work

To ensure possibly effective performance of tasks assigned by law to SRS Finance Police department, implementing investigation principles introduced in the new Criminal Process Law that came in force on October 1, 2005, as well as developing the general organisation of work in institution in line with the experience of law enforcement institutions of more developed countries, the reorganisation of resources and optimisation of functional performance was started in Summer 2005.

Within the framework of reorganisation:

- Fragmentation on structural investigation work in SRS Finance Police department was eliminated. Now criminal investigation is organised in one structural unit of central administration;
 - Division of Finance intelligence was established in SRS Finance Police department, which after the completion of structural reform will deal with financial intelligence issues in order to ensure more effective performance of departments main tasks;
- Although the process of reorganisation was not fully accomplished in 2005, the results of performance in 2005 testify about positive tendencies.

Investigation of criminal procedures

The function of SRS Finance Police department as investigation institution is characterised by the initiated criminal procedures and detected criminal offences

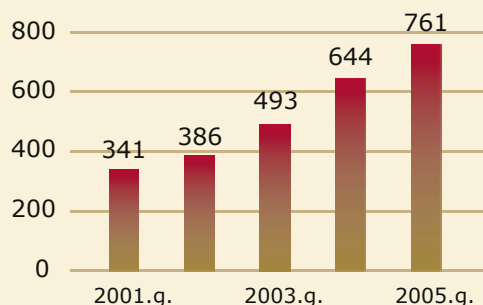
COMBATING FINANCIAL CRIME

(criminal cases or criminal procedures forwarded to law enforcement institutions for initiating of the criminal prosecution).

Evoked and received criminal procedures/ criminal cases

There was an extraordinary high number of evoked and received for further investigation criminal procedures (criminal cases), as well as the amount of fixed fiscal damage therein. In 2005 SRS Finance Police department have initiated and received for the investigation 761 criminal procedures/ criminal cases in total, which is by 117 criminal procedures/ criminal cases or by 18% more than in 2004.

Dynamics of evoked and received criminal procedures/ criminal cases in SRS Finance Police department



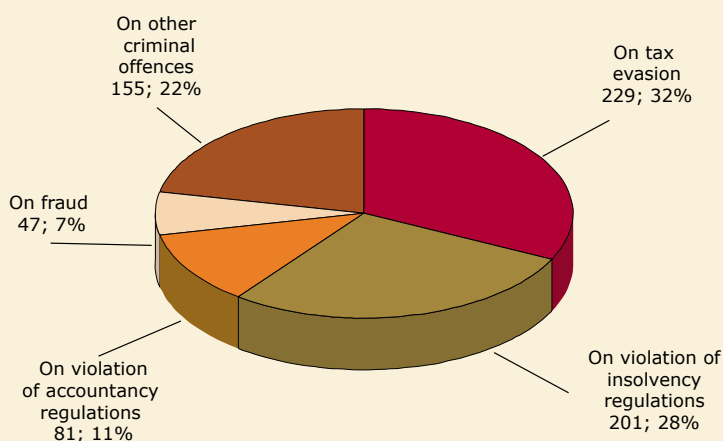
	2001	2002	2003	2004	2005
Evoked and received criminal procedures/ criminal cases in total	341	386	493	644	761
Evoked criminal procedures/ criminal cases	310	359	465	615	713
Including:					
On the tax evasion	102	98	169	198	229
On violation of insolvency regulations	114	158	178	178	201
On violation of accountancy regulations	8	19	41	64	81
On fraud	15	30	22	41	47
On other criminal offences	71	54	55	134	155
Fixed losses in evoked criminal procedures/ criminal cases (millions of Ls)	34,8	26,0	48,9	34,3	50,5
Received criminal procedures/ criminal cases	31	27	28	29	48



COMBATING FINANCIAL CRIME

In 2005 split of evoked criminal procedures/ criminal cases in percentage per types of criminal offences has not changed significantly in comparison with 2004. Namely, approximately one third - 229 (32%) criminal procedures/ criminal cases or 32% from all evoked criminal procedures/ criminal cases was evoked on the tax evasion, 201 criminal procedures/ criminal cases or 28% - on violation of insolvency regulations, 47 % criminal procedures/ criminal cases or 7% - on fraud.

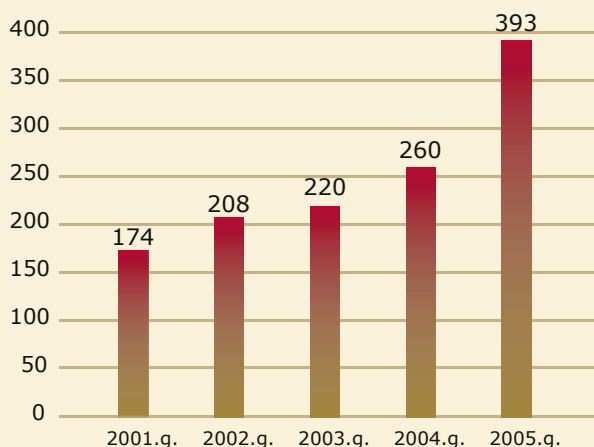
Split of criminal procedures/ criminal cases evoked by Financial Police Department of SRS per types of criminal offences in 2005



Criminal procedures/ criminal cases forwarded for evoking the criminal persecution

The SRS Finance Police department have forwarded for the evoking of criminal persecution 393 criminal procedures/ criminal cases to prosecutors in 2005 which is considerably more – by 133 criminal procedures/ criminal cases or by 51% more than in 2004 and has reached the highest number in the history of department's existence.

Dynamics of criminal procedures/ criminal cases forwarded for evoking the criminal persecution



COMBATING FINANCIAL CRIME

Dynamics of criminal procedures/ criminal cases forwarded for evoking the criminal persecution

	2001	2002	2003	2004	2005
Criminal procedures/ criminal cases forwarded for evoking the criminal persecution	174	208	220	260	393
Including:					
On tax evasion	43	36	36	37	61
On violation of insolvency regulations	84	131	136	123	166
On violation of accountancy regulations	8	6	25	29	47
On fraud	4	3	1	6	11
On other criminal offences	35	32	22	65	108
Fixed losses in criminal procedures/ criminal cases forwarded for evoking the criminal persecution (millions of Ls)	2,9	7,8	2,2	5,1	36,7

Considering priorities of the activities of the year 2005, in this year especially intensively Finance Police department has worked with criminal procedures (criminal cases) on tax evasion and fraud, which is seen in the results. In comparison with 2005 there was forwarded by 65% more criminal procedures (criminal procedures) for evoking the criminal persecution on tax evasion and by 83% more criminal procedures (criminal cases), which has been evoked on fraud.

In comparison to 2004, in 2005 considerably has increased the amount of fixed losses in criminal procedures (criminal cases) forwarded for evoking the criminal persecution – by 31,6 millions of Ls. In 2005 the number reached 36,7 million Latvian Lats. The increase of fixed losses in criminal procedures (criminal cases) forwarded for evoking the criminal persecution represents the positive result of work, which has been promoted by the utilisation of investigation resources in comply with determined priorities – combating of organised crime, money laundering and combating of tax fraud.

At the end of 2005 there were 980 criminal procedures (criminal cases) in the records of investigators of SRS Finance Police department, which is by 106 criminal



COMBATING FINANCIAL CRIME

procedures (criminal cases) or 12% more than in 2004 and is the highest indicator in the history of department's existence. The increase of criminal procedures (criminal cases) in the records indicates to continuous increasing amount of work in SRS Finance Police department.

Other activities

SRS Finance Police department in 2005 has carried out 227 controls related to payments of untaxed wages to employees ("envelope salaries"), non-registered income in commercial societies, misrepresenting of accountancy data and evasion from personal income tax and payment of mandatory state social insurance contributions. In the result of controls 112 violations have been detected and in 21 cases the criminal procedure (criminal case) was evoked thereof.

As a result of operational activities carried out by SRS Finance Police department 224 missing traders were detected in year 2005, as a result the money resources approximately in the amount of 2,7 millions of Ls were suspended in the accounts of credit institutions. Within the criminal procedures (criminal cases) evoked by SRS Finance Police department (as the guarantee to possible confiscation of guilty person's property) 16 cars were seized, and five groupings, which have organised the tax evasion, VAT fraud, as well as the legalisation of illegally obtained resources were detected.

Significant investigated criminal procedures (criminal cases)

In May, 2005 SRS Finance Police department has forwarded to prosecutor's office for investigation the crimes of finance and economy for evoking the criminal persecution the criminal case on state officials tax evasion hiding of accountancy data of definite Limited liability company (hereinafter – Ltd), where the damage for state budget in total was 119,45 thousand Lats. Carrying out the control in Ltd premises, employees of SRS Finance Police department have detected that the salaries were paid in "envelopes". In the premises having controlled the approved lists of salary payments and journals on monthly salary payments, in which with the signatures of employees have been approved the



COMBATING FINANCIAL CRIME

unofficial salary receipt in envelopes in period from the 1 January, 2001 till the 20 March, 2003.

In June, 2005 SRS Finance Police department has evoked the criminal case on group of persons for tax evasion in large amounts, using the falsified documents of a definite Ltd. Within the investigation of criminal case there was clarified that organised group of persons, utilising the requisites of fictitious registered enterprises, have imported in Latvia several luxury cars, later selling them. For the registration of cars the missing traders have been used in order to evade the payments of value added tax. At the same time group of persons mentioned before, using the requisites of missing traders and bank accounts opened with names of non-residents, had provided the services to other persons attempting to evade from tax payments and to carry out the money "laundering", including using the accounts of natural persons. Carrying out the house-search in clarified addresses, involved into "money laundering" there have been detained 40 fictitious and 10 offshore companies' seals, documents, filled and unfilled sets of strict accounting waybills, as well as i-bank code cards, Digi-bank passports, computers, which have been used by group of persons mentioned before to carry out the criminal offences. In the course of the criminal case restrictions were applied and several luxurious cars were seized in order to ensure the possible confiscation of criminal property and the solution of property issues in several related criminal procedures. Carrying out the investigation the criminal case was divided from basic case on group of persons' tax evasion in large amounts, using the fictitious documents and legalisation of illegally obtained money resources in large amounts on Section 218 Paragraph two, Section 275 Paragraph two, Section 195 paragraph two of the Criminal Code and materials of criminal case have been sent to organised crime and other branch specialised prosecutor's office to evoke the criminal persecution.

In June of 2005 SRS Finance Police department forwarded a criminal case to the prosecutor's office of investigation of finance and economy crimes to evoke the criminal persecution on definite Ltd state officials tax evasion and hiding of accountancy data, which have caused loses to the state in amount of 32,21 thousand Lats. Employees of SRS Finance Police department carrying out the preliminary investigation obtained sufficient evidence that the Ltd state officials hid the actual calculated and paid salaries of employees in 2002 and 2003 instead of complying with the regulations concerning organisation of accountancy documents determined by law.

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COMBATING FINANCIAL CRIME

In June of 2005 SRS Finance Police department forwarded the criminal case to the prosecutor's office of investigation of finance and economy crimes to evoke the criminal persecution on a definite Joint Stock Company (hereinafter – JSC), which hid the accountancy documents, statistical information and evaded from taxes as well. Detecting the "envelope salaries" in the JSC structural units on request of SRS Finance Police department the tax auditing has been carried out, in result of which in addition the tax principal debt has been assessed in amount of 37,63 thousand Lats, as well as the fine in amount of 37,63 thousand Lats to be paid into the budget of state.

In September of 2005 SRS Finance Police department forwarded the criminal case to the organised crime and other branch specialised prosecutor's office to evoke the criminal persecution on criminal offences– VAT fraud attempt approximately in total amount of 8,4 millions of Ls and tax evasion approximately in total amount of 13,8 millions of Ls, which have been carried out by the definite Ltd in group of persons. Criminal persecution against four state officials has been requested.

In December of 2005 SRS Finance Police department forwarded the criminal case to the prosecutor's office of investigation of finance and economy crimes to evoke the criminal persecution on definite SJC state officials tax evasion in amount of 1,34 millions of Ls. Criminal persecution against two state officials has been requested.



Cash of LVL 99 100 and stamps of different institutions and officials detected within the framework of a criminal procedure



SUPERVISION OF EXCISE GOODS CIRCULATION

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Main tasks in the area of excise goods circulation are issuing, re-registration or cancellation of the specific permits (licences) and excise tax guarantee certificates for business operations with excise goods, administration of inland excise tax for oil products, issuing of excise stamps and controlling of their circulation, control actions in observation of normative acts regulating excise goods circulation, prevention of violations of provisions of excise goods circulation and application of sanctions prescribed by the normative acts. Tasks mentioned above are mainly performed by the SRS Excise Goods Department.

Priorities of the SRS Excise Goods Department in 2005 were:

- supervision of business operations with oil products particularly paying attention to express methods in control of fuel quality;
- administration of inland excise tax for oil products;
- promotion of the capacity of information subsystems which are related to excise goods circulation and administration of the excise tax in order to improve information exchange with other structural units of the SRS and tax administrations of other European Union member states.

In order to improve supervision of excise goods and administration of excise tax, Regulations of the Cabinet of Ministers No. 662 from August 30, 2005 "Procedure of excise goods movement" and Regulations of the Cabinet of Ministers No. 638 from August 30, 2005 "Regulations on excise duty guaranties on alcoholic beverages, tobacco products and oil products" were adopted.

Licensing

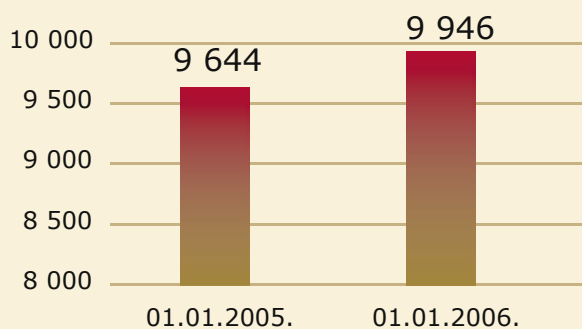
In 2005 the SRS Excise Goods Department has issued and re-registered 5 013 licences for operations with excise goods. There were approximately 9 946 valid licences in the area of excise goods circulation as on January 1, 2006, which is 302 licences more than in the previous year. Increase in the number of valid licences can be explained by changes in normative acts that have positively influenced the business environment. 35 licences for commercial activities have been cancelled in 2005 because of the established violations of the normative acts in the area of excise goods circulation, which is six licences less than in 2004. This indicates that entrepreneurs



SUPERVISION OF EXCISE GOODS CIRCULATION

as a result of surveillance activities try to observe regulations established by the law in a more disciplined manner.

Valid licences in the area of excise goods circulation



In accordance with changes in normative acts regulating circulation of excise goods, entrepreneurs who until September 1, 2005 had received special permits (licences) for operation of excise goods warehouse and planned to send alcoholic beverages, tobacco products, oil, coffee or non-alcoholic beverages applying tax suspension arrangements, to label alcoholic beverages and tobacco products with excise tax stamps or apply marking of the fuel as a specific kind of fuel mixing, had to re-register their licences in compliance with requirements of normative acts until November 1, 2005.

In 2005 the SRS Excise Goods Department has issued and re-registered 269 general excise tax guaranties for operations with excise goods and application of tax suspension arrangements.

SUPERVISION OF EXCISE GOODS CIRCULATION

Review of the licensing operations in 2005

		Number of issued licences	Number of reregistered licences	Number of cancelled licences		Number of suspended licences	Number of re-established licences	Number of valid licences as on 01.01.2006.
				because of violations of regulations	based upon the application of the trader			
MT	Licences for retail sale of alcoholic beverages	647	1 206	13	250	10	4	4 774
AM	Licences for retail sale of beer	53	39	0	24	0	0	313
VT	Licences for wholesale of alcoholic beverages	37	47	3	23	1	1	166
TM	Licences for retail sale of tobacco products	1 632	867	7	172	6	3	4 155
TV	Licences for wholesale of tobacco products	11	17	1	8	0	0	45
BM	Licences for retail sale of oil products	37	88	2	20	1	1	216
BV	Licences for wholesale of oil products	4	17	4	6	1	0	47
	Licences for the operation of excise goods warehouse	42	261	2	14	5	4	210
	Licences for the operation of authorised trader	3	5	3	15	1	0	19
	Licences for the operation of the representative of the excise tax payer	0	0	0	0	0	0	1
	Total licences	2466	2547	35	532	25	13	9 946

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SUPERVISION OF EXCISE GOODS CIRCULATION

Supervision

In order to provide collection of the excise tax on oil products, the priority in the area of supervision of excise goods circulation and excise tax guaranties was supervision of business activities with oil products. There were 1 081 fuel samples taken from entrepreneurs performing business activities with oil products and their quality tested. Altogether 52 cases of violation were reviewed in the area of supervision of oil product quality and decisions adopted to apply fine in the amount of 8,48 thous. Lats and to confiscate 100,28 thous. litres of fuel.

In 2005 supervision activities were mainly dedicated to entrepreneurs who operate with excise goods and apply to them tax suspension arrangements, consumers of denatured alcohol as well as to the supervision of excise goods accompanying documents AAD and SAAD.

As since March, 2005 Excise goods divisions were established in the SRS territorial offices, theoretical and methodological training was carried out in the area of supervision of excise goods circulation. Officials of the SRS Excise Goods Department and excise goods divisions of the SRS territorial offices carried out joint inspections in the premises of entrepreneurs performing business activities with oil products.

In 2005 altogether 3 673 inspections were performed in the area of excise goods supervision, 1 298 violations of normative acts established and fines imposed in the amount of 67,82 thous. Lats.

Violations established in the area of the circulation of excise goods are mainly related to non-observance of accounting procedures, using of improper cash registers for sales of alcoholic beverages and violations of labelling provisions for alcoholic beverages.

SUPERVISION OF EXCISE GOODS CIRCULATION

Review of control measures performed by the SRS Excise Goods Department in the area of supervision of excise goods

Operations	Amount
1. Number of inspections	535
Including:	
oil products	67 %
alcoholic beverages and tobacco products	31 %
other excise goods	2 %
2. Number of established violations	80
Including:	
oil products	44 %
alcoholic beverages and tobacco products	56 %
3. Reviewed cases and adopted decisions (total)*	244
4. Fines, Ls (total)*	35 605
5. Amount of confiscated goods (total)*	
Oil products (litres)	100 895,4
Tobacco products	139 235 packages, 8 cigars
Alcoholic beverages (litres)	69 538,82
Transport (pieces)	4

* including cases regarding violation of excise goods regulations submitted by other institutions (SRS Financial Police Department, SRS Customs Criminal Board, State Police).

Excise tax stamps

In 2005 the SRS took over from the Ministry of Finance the function of ordering, receiving and covering of the expenses related to the procurement of excise stamps providing more operational service to customers and quicker response to changes in ordering of excise tax stamps.

349 552 733 excise tax stamps were issued to entrepreneurs.

In 2005 249 999 012 excise tax stamps for labelling of tobacco products were issued, which is 7,1 % less than in the previous year. Decrease can be explained by the large reserves of excise tax stamps at the end of 2004 that were created by entrepreneurs due to the increase of the excise tax rate as of January 1, 2005, and also due to the fact that normative acts did not provide re-calculation of difference between the previous and the new tax base.



SUPERVISION OF EXCISE GOODS CIRCULATION

There were 99 558 191 excise tax stamps issued for labelling of alcoholic beverages, which is by 20 % more than in the previous year. Increase can be explained by the market trends, the increase in the consumption of alcoholic beverages as well as the rising of the tax rate for strong alcoholic beverages since January 1, 2006.

Review on the issued excise tax stamps in 2005

Product category	Receivers of stamps	Amount (pieces)
Alcoholic beverages	Holders of excise goods warehouses	98 964 235
	Importers	589 486
	Representatives of taxpayers	0
Total:		99 553 721
Tobacco products	Holders of excise goods warehouses	238 858 378
	Importers	458 634
	Representatives of taxpayers	10 682 000
Total:		249 999 012
Grand total:		349 552 733

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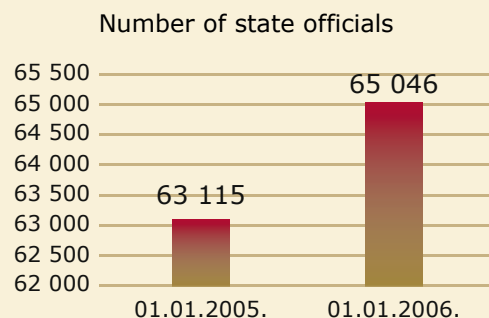
CONTROL OF THE OPERATION OF STATE OFFICIALS

In compliance with the law "On prevention of the conflict of interest in the operation of state officials" tasks of the SRS in fulfilment of corruption prevention policy are to control implementation of requirements for completing and timely submission of the declarations, to control implementation of requirements for preparation and timely submission of lists of state officials, to provide registration and keeping of declarations of state officials, as well as their publication according to the procedure provided by the normative acts, to take to administrative accountability state officials and heads of state and municipal institutions for violation of the procedure for submission of the declaration of the state official or for providing false information in the declaration, and delayed submission of lists of state officials and their modifications, or the submission of incomplete lists.

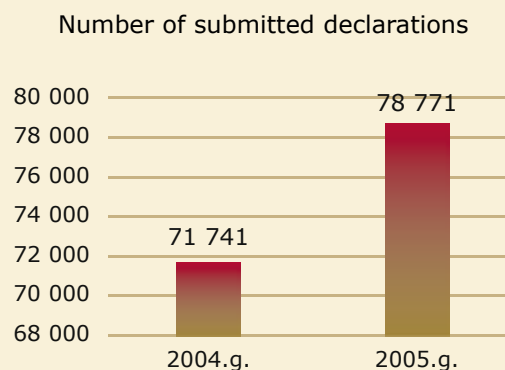
Control of state officials

Number of state officials and submitted declarations

There were 65 046 state officials registered as on January 1, 2006, which is 1 931 or 3,1% more compared to January 1, 2005.



78 771 declarations of state officials were submitted within a year, which is 7 030 declarations or 9,8 % more than in 2004.



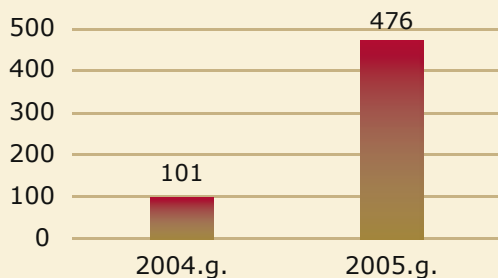
CONTROL OF THE OPERATION OF STATE OFFICIALS

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Established violations and penalties

In 2005 476 state officials were brought to administrative liability for late filing of income declarations, violation of the procedure for filling and submitting of declarations and providing of false information, which is almost four times or 375 state officials more than in 2004. It can be explained by the particular control over the submission of declarations within fixed deadlines.

Number of state officials brought to administrative liability



Out of 476 state officials brought to administrative liability:

- 395 officials were punished with fine (total 5,9 thous. Lats);
- 70 state officials received verbal reprimand upon closing of the case;
- case has been closed or not initiated against six state officials due to statute of limitation;
- case has been dismissed against three state officials due to the lack of substance for administrative offence;
- case has been dismissed against three state officials due to other reasons.

Case materials about 41 state official were sent to the SRS Financial Police Department for investigation, which is 10 officials or 32,3% more than in 2004. In 2005 criminal cases for non-filing of the declaration has been initiated against five state officials, cases against two state officials have been dismissed or not initiated due to the lack of substantial ground, 16 decisions were adopted not to initiate a criminal case, in 16 cases the SRS has made a ruling to apply penalty by imposing fines, issuing verbal reprimands or dismissing charges due to fading out of the due term. Investigation in two cases will be continued in 2006.



CONTROL OF THE OPERATION OF STATE OFFICIALS

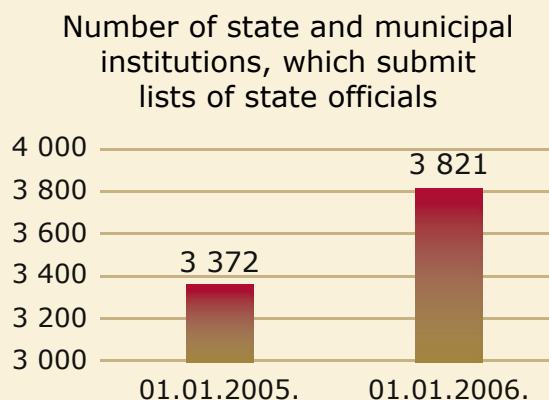
According to its competency in the administration of the law "On prevention of the conflict of interest in the operation of state officials" the SRS detects potential cases of the conflict of interest and informs the Corruption Prevention and Combating Bureau (hereinafter – CPCB). In 2005 materials about potential conflict of interest were sent to CPCB on 15 state officials out of which:

- one person has been given a warning;
- CPCB has adopted a decision to bring to administrative liability three state officials for not reporting about being in the situation of the conflict of interest and violation of restrictions and prohibitions laid down for state officials by imposing a fine;
- after the inspection performed by CPCB, SRS in three cases has applied a penalty against state officials for violation of restrictions and prohibitions laid down for state officials by imposing a fine;
- in eight cases review of the case materials will be continued in 2006.

Control of state and municipal institutions

Number of state and municipal institutions, which submit lists of state officials and their modifications

In 2005 the number of state and municipal institutions, which submitted lists of state officials and their modifications has increased by 449 institutions or 13,3% comparing to 2004. On January 1, 2006 lists of state officials and their modifications were submitted by 3 821 state and municipal institutions.



CONTROL OF THE OPERATION OF STATE OFFICIALS

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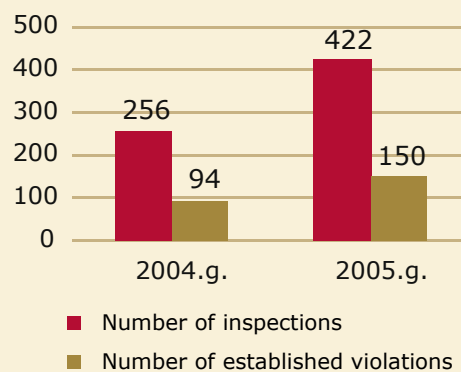
Inspections and established violations

In 2005 422 inspections were performed about compliance of submitted lists of state officials and their modifications to the established procedure. Compared to the year 2004 number of inspections has increased by 166 inspections or 64,8%.

As a result of inspections 150 administrative offences were established, which is 56 offences or 59,6% more than in 2004. For established offences of the procedure for submission of lists of state officials and their modifications, as well as for submitting of incomplete lists of state officials:

- fine has been imposed on managers of 30 institutions (total 1,5 thous. Lats);
- cases against managers of 82 institutions have been dismissed with oral reprimand;
- cases against managers of 30 institutions have been dismissed or have not been initiated due to the expiration of due term;
- three cases against leadership of institutions have been dismissed due to the lack of substance for administrative offence;
- five cases against heads of institutions have been dismissed due to insignificant violations.

Number of inspections and established violations



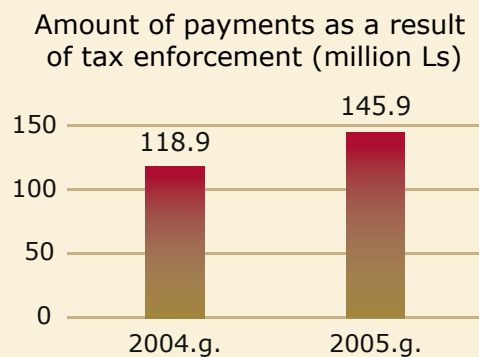


TAX ENFORCEMENT AND RESOLUTION OF DISPUTES

Results of tax enforcement

In 2005 145,9 mil. Lats were paid into the budget as a result of enforcement measures of the SRS territorial offices, which is by 27,0 mil. Lats or 22,7 % more than in 2004. From the enforced tax liabilities:

- 50,0 mil. Lats or 34,3% were social insurance payments;
- 51,5 mil. Lats or 35,3 % were value added tax;
- 30,8 mil. Lats or 21,2 % - personal income tax;
- 9,4 mil. Lats or 6,4 % - corporate income tax;
- 1,5 mil. Lats or 1,1 % - excise tax;
- 2,7 mil. Lats or 1,7 % - other taxes.



In 2005 25,8 % of active tax arrears were enforced on average each month while in 2004 the enforcement rate was 18,8%. Improvement of indicators can be explained by improvement of enforcement operations in the SRS territorial offices as well as seminars organised by officials of the SRS Legal Department on the issues of enforcement of late tax payments.



TAX ENFORCEMENT AND RESOLUTION OF DISPUTES

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Results of proceedings in cases of additionally assessed tax payments

In 2005 SRS had to represent its interests for additional tax payment assessment in 2 057 court sittings, which is 168 court sittings or 9 % more than in 2004. From 2 057 court sittings 1 167 were postponed, in 82 cases applications of taxpayers about the suspending of administrative acts issued by the SRS officials were reviewed, in 25 cases proceedings were suspended, in 33 cases proceedings were terminated.

Disputes of taxpayers and the SRS about additional payments were reviewed in substance in 639 cases, in 441 or 69% of these cases the result (court decision) was in the favour of the SRS. In 2005 the proportion of cases favourable to the SRS has increased by 21% (in 2004 556 cases were reviewed in substance, from these the favourable result was in 266 court sittings or 48 %). Result partly favourable to the SRS was adopted in 63 court sittings or 10% of all cases (in 2004 – 43 court sittings or 8 % of all cases), unfavourable – in 135 court sittings or 21 % (in 2004 – 247 court sittings or 44 % of all cases).

From 441 court sitting where the result was favourable to the SRS the proceedings were terminated (the judgement came into legal effect) in 173 cases (78 %) and as a result taxpayers had to pay 10,81 mill. Lats into the budget. The indisputable amount of the payments into the budget has increased four times compared to the 2004. In 2004 from 266 court sittings where the result was favourable, proceedings were terminated (the judgement came into legal effect) in 51 case and taxpayers had to pay into budget 2,77 mill. Lats.

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TAX ENFORCEMENT AND RESOLUTION OF DISPUTES

Pre-court review of tax disputes

In 2005 officials of the SRS Pre-court tax dispute resolution division prepared 721 draft decisions (in 2004 there were 935 draft decisions prepared).

Decisions adopted during the review of cases

Decision after the review	2004	2005
Left unchanged, including:	545	468
the fine reduced	48	53
Cancelled	128	47
Cancelled in part, including:	125	59
the fine reduced	9	5
Decided to adopt a new decision	1	2
Decided to review the appeal	13	9
Reduce the fine	75	90
Not to reduce the fine	41	30
Decision adopted not to review the appeal	7	16
Total	935	721

The SRS Pre-court tax disputes resolution division prepared 106 draft rulings that provided partial or complete cancellation of the decisions adopted by the directors of the territorial offices. One of the main reasons for cancelling the decisions has been erroneous application of the norms of the regulatory acts (41 case), non-compliance with the norms of the procedure and insufficient proofs for the substantiation of the relevant conclusions (20 cases).

In 2005 the SRS Pre-court tax disputes resolution division received appeals of taxpayers on decisions adopted by the directors of the territorial offices imposing additional payments to the budget in the amount of 28,2 mill. Lats, losses reduced by 4,1 mill. Lats, losses increased by 390,2 thous. Lats, corporate income tax reduced by 41,9 thous. Lats and the VAT reduced by 397,5 thous. Lats. Taxpayers appealed against additional payments into the budget in the amount of 26,7 mill. Lats as well as reduction of losses in the amount of 3,5 mil. Lats. After reviewing of case materials draft decisions were prepared cancelling the payments determined by decisions adopted by the directors of the territorial offices in the amount of 3,8 mil.



TAX ENFORCEMENT AND RESOLUTION OF DISPUTES

Annual report

Lats (14,34 % of the amount appealed by the taxpayers). In addition 157,4 thous. Lats were assigned for payment into the budget.

The SRS Director General reviewed 231 appeal of taxpayers to reduce the additionally assessed fine and in compliance with the Article 331 of the law "On taxes and fees" in 148 cases he made a decision to reduce the additionally assessed payments into the budget by 672,7 thous. Lats. In 83 cases appeals of taxpayers to reduce the additionally assessed payments into the budget were denied.

In compliance with the Article 41 of the law "On taxes and fees" the SRS concluded 36 agreements with taxpayers cancelling additionally assessed fines in the amount of 279,3 thous. Lats.

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INTERNATIONAL COOPERATION

Active participation in the events organised by the foreign and international organisations (European Commission programme Fiscalis/Customs 2003/7, TAIEX, Intra-European Organisation of Tax Administrations (IOTA), Organisation of Economic Co-operation and Development (OECD), World Customs Organisation (WCO), European Anti – Fraud Office (OLAF) etc.) as well as in everyday work of European Council and European Commission committees has taken place thus promoting the unified application of the EU legislative acts in the field of taxes and customs and mastering the best practice of other countries in operation of the revenue administrations.

Participation in the high level international events:

- International tax dialogue – value added tax conference organised by OECD, International Monetary Fund and Italian Ministry of Finance in Rome, Italy;
- IOTA 9th General Assembly in Krakow, Poland;
- Annual international meeting of the Directors General of EU tax administrations “Management of tax administration – objectives and their achievement” Rome, Italy;
- OECD 10th Annual Global Forum on International Tax Conventions „On prevention of double taxation” in Paris, France;
- The 9th Meeting of the Directors General of Baltic States Tax Administrations in Copenhagen, Denmark;
- Video-conference organised by the World Bank between the specialists from Latvian and Uzbekistan Tax Administrations regarding use of risk analysis in planning of tax control events;
- WCO 2nd conference of the European region Customs Services directors in Astana, Kazakhstan;
- Meeting of Leading Customs Official organised by Luxembourg presidency in Luxembourg;
- Meeting of the Directors of North European countries customs directors on collaboration issues in London, Great Britain;
- Europol management council meeting in Luxembourg;
- Meeting of the chiefs of Police, Border guard and Customs services from Finland, Estonia, Latvia and Lithuania in Tallinn, Estonia;
- Annual WCO Customs Co-operation council session regarding customs co-operation issues in Brussels, Belgium;

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INTERNATIONAL COOPERATION

- Meeting of the Head of Asian and European countries Customs Services organised by the European Council in Pebble, Scotland;
- European Commission customs and cross-border co-operation conference in Kiev, the Ukraine.

In promotion of closer co-operation with the tax administrations from other countries, representatives from Lithuanian tax administration, Finish tax administration, as well as representatives from Uganda tax and customs administrations visited Latvia in 2005. In promotion of closer co-operation with the customs administrations from other countries representatives from Swedish Riksdag Tax Commission, German Customs Criminal Board and Kingdom of Sweden customs service visited Latvia in 2005.

In collaboration with the European Commission, within the framework of the program Fiscalis 2003–2007 seminar on „Excise administrative co-operation issues“ was organised in Riga, where 67 representatives from all the European member countries and the candidate countries, as well as representatives from European Commission Tax and Customs Directorate General (TAXUD) participated in the event.

The implementation of Phare 2003 national program project „SRS Tax control improvement“ was successfully completed in 2005, within the framework of which:

- in Co-operation with the Netherlands tax and customs administration and Danish customs and tax administration implementation of the Twinning project was completed;
- five agreements were concluded – On Establishment of Thematic Checks Support IT system, On Establishment of Information Exchange system, On Supply of Fraudulent Transaction Chain Visualisation program, On supply of lap-top computers and On supply of licence for international data base Amadeus.

Documentation regarding Phare national program Twinning Light project „Provision of exchange of information in accordance with requirements of the EU directives 77/799/EEC and 79/1070/EEC and OECD Convention on Mutual Assistance in Tax Matters“ in order to provide organisation of qualitative exchange of information in electronic form was approved in September 2005.

SRS Financial Police Department has entered into closer co-operation with Europol and the Europol National Unit operating under the supervision of Latvian State Police. Within the co-operation framework with Europol, Finance Police Department



INTERNATIONAL COOPERATION

was involved in the member states' competent authorities expert working group, established within the framework of the program „Hague“, developed by European Commission and Europol, prescribing strategy for prevention of organised crime, strengthening the prevention instruments in connection with organised crime financial aspects. One of the prevention instruments prescribes development of unified minimal training standard for all the member states in combating of crimes in financial area for the period between 2005 and 2007.

Active participation in program Customs 2007 subprogram Exchanges was initiated in 2005, by establishing contacts with the program Exchange co-ordinators from the customs services of other countries. Within the framework of the program exchange of experience has taken place in the area of dog handling, area of physical control, on work with scanners, on protection of intellectual property rights and On implementation and utilisation of security electronic control system. Within the framework of subprogram Exchange of the program Customs 2007 exchange trips for 23 officials from the SRS were organised to Lithuania, Finland, Italy and Hungary. Within the same subprogram 12 customs experts from Finland, Lithuania, Italy, Czech Republic and Sweden were received.

Active participation in European Customs sports association, member of which Latvia is since 2004, was commenced in 2005. European Customs Sports association is an international organisation, established in 1992 consisting as of today of 17 member states (Belgium, Czech Republic, Cyprus, Denmark, Finland, France, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, the Netherlands, Poland, Slovakia, Sweden and Great Britain). The main idea of the organisation is to strengthen the ties between the European customs administrations, thus promoting and organising mutual sports activities. Until now representatives from Latvian customs with good success have participated in competitions for dog handlers. In 2005 representatives from Latvian customs for the first time participated in shoot competition in Czech Republic. Latvian and Finnish customs friendly hockey match was organised for the first time parallel to active participation in activities of European Customs sports association.

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BUDGET INFORMATION

STATE BUDGET FINANCING AND THE EXPENDITURES

Under the law "On State budget for year 2005" SRS has used the state budget grants and foreign financial assistance funds according to approved cost estimates and financing plans. A system of internal control of financial funds, economic transactions and projects realised by SRS, is established and it ensures efficient and cost effective use of available resources.

Total state financing allocated and the expenditures

No.	Financial resources	Actual performance in 2004	Year 2005 (Ls)	
			Under the law	Actual performance
1.	Financial resources to stand the costs (in total)	71 504 660	70 463 296	68 722 532
1.1.	Grants	61 452 918	64 014 513	64 014 513
1.2.	Paid services and other own revenues	3 416 961	4 118 320	3 454 464
1.3.	Foreign financial assistance	6 634 781	2 330 463	1 253 555
2.	Expenditures (in total)	70 944 777	70 534 614	68 007 151
2.1.	Maintenance expenditures (I total)	55 809 925	64 498 473	62 757 768
2.1.1.	Donations and grants, including contributions to international organisations	8 930 439	11 516 517	11 468 273
2.1.2.	Other maintenance expenditures	46 879 486	52 981 956	51 289 495
2.2.	Expenditures for capital investments	15 134 852	6 036 141	5 249 383

BUDGET INFORMATION

STATE INVESTMENT PROGRAMS

The breakdown of the financing used during the year 2005 within the framework of State investment program project OP 03 „Customs points on the borders“

Object	Allocated resources (Ls)	Spent allocations (Ls)
Construction, construction and author's supervision of Šķirotava railway customs control post	1 435 670	1 248 715
Design, construction, construction and author's supervision of railway weighs for Šķirotava railway customs control post	347 847	62 204
Renovation of SRS building in Rēzekne, Maskavas street 30	123 773	77 440
Design, construction, construction and author's supervision of the oil products inspection ramp at Rēzekne commodity station CCP	109 760	23 621
Construction of radiation measurement equipment for the CPP Riga free port; project development for connection of diesel generator to the office building of the SRS Customs board	998	2 080
Investments in total in 2005	2 018 048	1 414 060

In the year 2005 within the framework of the State investment programme project OP 03 "Customs points on the borders" construction of customs control post "Šķirotava" was started, term for completion of which is May 31, 2006. Contract on construction and installation of automatic railway weighs at the customs control post "Šķirotava" was concluded. Final date for completion of weighs' construction is June 22, 2006. Realisation of the both above-mentioned activities is foreseen within the framework of Phare project LE0104.01 "Inspection infrastructure at seaports and railroad border crossings".

In the year 2005 within the framework of the same State investment programme project OP 03 "Customs points on the borders" renovation of the SRS building in Rēzekne, Maskavas street 30 has been commenced and takes place in order to establish customs clearance centre. Date for termination of the renovation works is March 1, 2006.

In the year 2005 construction of oil products inspection ramp at Rēzekne commodity station of customs control post was commenced. Date for termination of the construction works is March 22, 2006.



BUDGET INFORMATION

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OTHER PROGRAMMS

Information on expenditure of funds of the projects implemented within the framework of Phare program (Ls)

Phare project title	Foreign financial assistance funds		National co-financing		Spent in-total
	allocated	spent	Allocated	spent	
2003/004-979-08-02 "State revenue service tax control improvement"	143 284	738	23 314	13 065	13 803
2002/000-590-02-01 "Market surveillance system in non-food area"	60 511				
2002/000-590-12-02 "Provision of exchange of information in accordance with requirements of the EU directives 77/799/EEC and 79/1070/EEC and OECD Convention on Mutual Assistance in Tax Matters"	90 803	67 243	10 089	9 397	76 640
2002/000-590-11-01 "Strengthening of the administrative capacity of customs by implementing the Customs Business Strategy and the EU compatible customs data bases"	1 424 287	698 145	98 893	98 893	797 038
2003/004-979-08-01 "Integrated tariff management system and risks assessment"	249 001	246 655	19 290	15 261	261 916
2003/004-979-02-04 "Protection of Intellectual and Industrial Property Rights"	89 186	72 945	9 790	9 782	82 727
2003/004-979-03-01 "Market Administration System for Agricultural Products"	84 336		5 116	4 412	4 412
LE01.04.01 "Development of customs infrastructure at sea ports and railroad border crossings"			2 018 048 (investment)	1 414 060 (investment)	1 414 060

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BUDGET INFORMATION

LV/2003/IB/FI/02-TL "Post - clearance Audit Reinforcement project"	93 473	72 249	9 137	9 002	81 251
LV/2003/IB/FI-08TL "Improvement of the Customs Analytical Work"	95 582	95 581	11 948	7 303	102 884
In total	2 330 463	1 253 556	2 205 625	1 581 175	2 834 731

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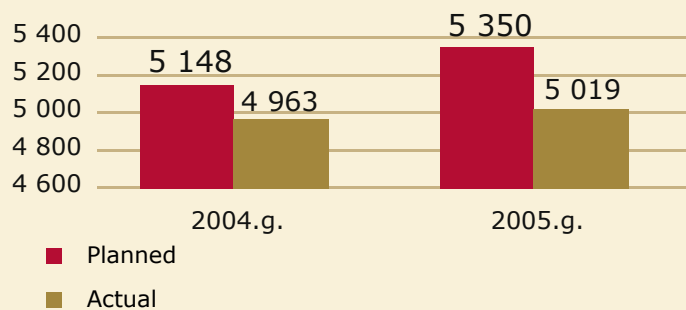


PERSONNEL

Quantitative composition of the personnel

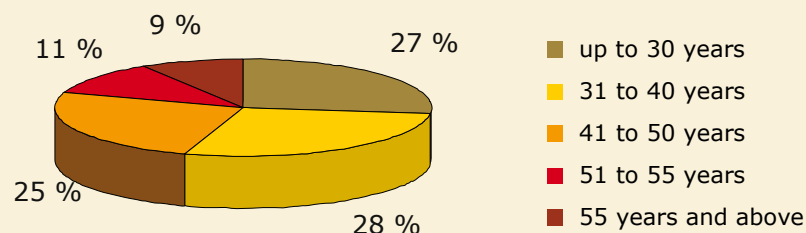
In year all together 5 349,5 staff units were planned in the State Revenue Service in 2005, including 4 435 officials and 914,5 employees. At the end of 2005 there were actually 5 019 officials and employees, respectively 4 136 officials and 883 employees employed in SRS, and of them 3 487 or 69,5% of all the persons employed by SRS and 1 532 or 30,5 % of all the persons employed by SRS are men.

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



Breakdown of personnel per age groups has not significantly changed in 2005 as compared with the year 2004. At the end of 2005 out of 5 019 persons employed by the SRS 1 383 were at the age up to 30 years, 1 387 – aged 31 to 40, 1 238 – aged 41 to 50, 557 – aged 51 to 55 and 454 – 56 years and above.

Breakdown of personnel per age groups

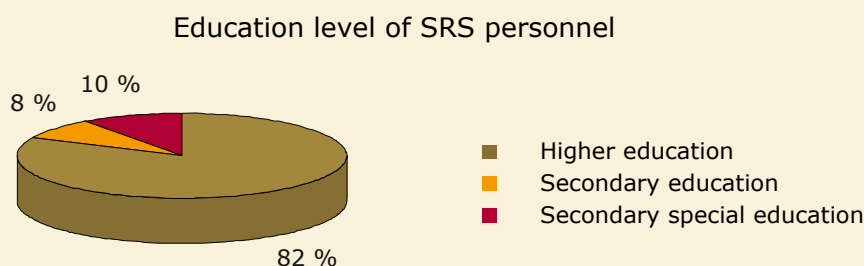


PERSONNEL

Education level of Staff

In 2005 the proportion of the employees with higher education has increased from 75 % in 2004 to 82 % in 2005. Accordingly the proportion of the employees with secondary or secondary specialised education has reduced. At the end of 2005 4 126 employees and officials at the SRS had higher education (three persons acquired doctor's degree, 435 – master's degree), 400 – have secondary education and 493 secondary specialised education. 1109 persons are continuing their education at a higher education level, out of which five continued their studies for doctor's degree, and 243 – to acquire master's degree.

3626 employees and officials in 2005 attended different qualification courses in the areas of customs issues and tax administration, courses for IT administrators and users, as well as other types of courses organised by the State Administration School.



Length of service at SRS

1 118 employees and officials (as of January 2, 2006) have worked at SRS for more than five years and 1 873 more than 10 years. Compared to the indices at the beginning of the year 2005, number of employees who have worked at SRS more than five years is decreasing (from 1 552 to 1 118 persons), and the number of employees who have worked more than 10 years is increasing (from 1 376 to 1 873).



PERSONNEL

Personnel turnover

In 2005 708 employees and officials were taken on at the State Revenue Service. 651 employee terminated their employment with SRS. Compared to the indices of the previous year number of employees and officials terminated their employment with SRS upon employee's initiative has significantly increased. Number of the employees terminating their employment with SRS upon the employer's initiative is decreasing. In 2005 527 employments were terminated upon the employees' initiative (in 2004 – 366 employees and officials), and the number of employments terminated upon the employer's initiative is 112 employees (in 2004 – 496 employees and officials). In 2005 six employments were terminated due to the employee's death.

Personnel turnover indicator in 2005 in total is 12.6%, though in some territorial offices the indicator exceeds even 20 %.

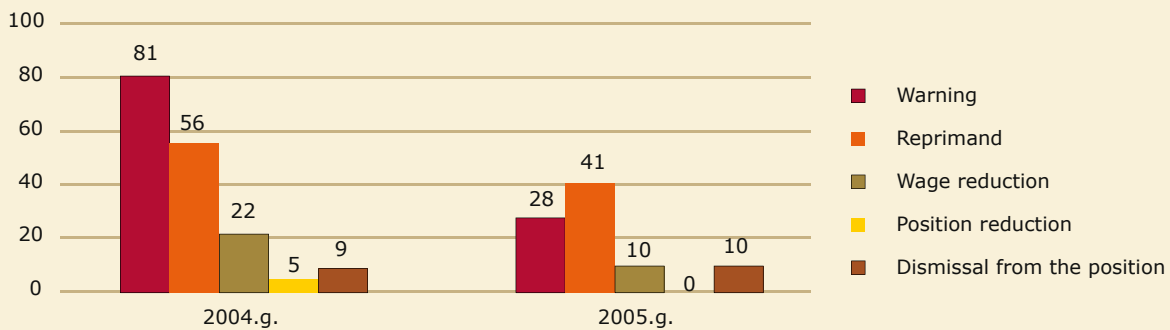
Disciplinary punishments

A lot of attention at SRS is focused on the quality of work and the compliance to the rules of work procedure. On-job inspections are carried out at SRS and unfortunately in the result violations are discovered. However recently a positive tendency can be observed, where amount of disciplinary punishments applied to the employees remarkably reduces.

Disciplinary punishments were applied for violations in relation to 89 employees, which is 84 cases, less than in 2004, when the number reached 173 cases. Out of these the disciplinary penalties in 2005 66 were applied in relation to employees and officials of SRS territorial offices (19 employees from SRS Latgale regional office, 14 – Riga regional office, 13 – Riga Customs regional office, 4 - Vidzeme regional office and 3 – Kurzeme regional office) and 23 in relation to employees and officials of the central administration (9 – Finance police department, 6 – Customs Board, 3 – Excise goods department, 3 – Legal department and 2 – Customs Criminal Board).

PERSONNEL

Types of applied disciplinary punishment



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SRS AND SOCIETY

Consultation, Information and Education of Taxpayers

To promote voluntary compliance and help taxpayers to pay taxes in accordance with the requirements determined by legal provisions, a great number of measures were carried out in 2005 in the area of taxpayers' consultation, information and education, utilising all the available communication aids and techniques for communication with taxpayers.

As many as 431 312 consultations were provided to the taxpayers in the sphere of the application of tax legal provisions in 2005, which is by 11,4% more than in 2004. Most of all from all the given consultations – 47% - have been given orally. The number of the consultations given electronically has increased very rapidly – by 59% more than in 2004, meaning that it is the most convenient way for taxpayers to receive the answers to their questions.

Taxpayers have made 34 636 calls in 2005 via centralised call centre in the issues of tax administration (phone number 7211011). The most essential questions of taxpayers were related to:

- personal income tax (8 152 or 23,5 %);
- value added tax (6 904 or 19,9 %);
- tax administration and rights and responsibilities of taxpayers (5 791 or 16,7 %);
- mandatory payments of state social assurance (2 200 or 6,4 %);
- way-bills - accounts (1 055 or 3 %).

The SRS has organised 1 435 seminars about the application of tax legal provisions in 2005 for taxpayers, professional organisations and other state and municipal institutions. In total, they have been attended by 38 456 participants. 4 923 students of different education institutions have been trained in 182 seminars.

In 2005 as many as 60 942 consultations (1 799 electronically, 23 416 by phone, 35 977 orally) were provided on the issues at the competence of the SRS related to the implementation of the law „On Prevention of Conflict of Interest in Activities of Public Officials” to state officials, directors of institutions and other interested persons; it is for 22 906 consultations or 60% more than in 2004. 2 981 informative, reminder or warning letters were sent out, 105 consultations or seminars have been organised on the spot in institutions.



SRS AND SOCIETY

The SRS has provided 10 917 consultations on customs issues in 2005. The division of the consultations by types:

- trade regimes and origin of goods – 1 562;
- TARIC/QUOTA – 1 923;
- customs procedures and regimes – 1 968;
- customs payments – 2 575;
- declaring (processing of single administrative document) – 1 419;
- customs debt and guarantees – 265;
- other issues in the sphere of customs (organisation of customs work) – 829.

Since June, 2005 the new Latvian language version of the SRS web site www.vid.gov.lv is available for taxpayers that, in comparison to the previous, is more user friendly and can be used more easily. Information in the SRS web site is being regularly updated and supplemented, the opportunity has been created to send a question for the SRS experts, participate in discussions, apply for news and other up-to-date opportunities.

The following informative materials have been issued in 2005:

- booklet „What Has To Be Known to Receive the Repayment of Personal Income Tax for Justified Expenses“;
- booklet „Who Has Obligatory Submit the Annual Income Tax Return by April 1?“;
- booklet „Cargo Control by Means of Ionising Radiation Facilities on the Border of the Republic of Latvia“;
- booklet „Information on Excise Tax Rates in the Republic of Latvia“;
- booklet „Registration of Taxpayers“;
- booklet „The Accounting of Income and Expenditure of the Payers of Personal Income Tax“;
- leaflet „Application of Value Added Tax to Transactions in the EU territory“;
- leaflet „Natural Resources Tax“ ;
- leaflet „The European Union Customs Tariff Reliefs – Tariff Quotas“;
- leaflet “What Has To Be Known About Customs Audit“;
- leaflet “Latvian Customs”.



SRS AND SOCIETY

Advisory Council of Customs and Businessmen

The co-operation with traders, that begun already in 2004, continued actively in 2005. The SRS organises regular the meetings of Customs and Businessmen Advisory Council where the representatives from different professional businessmen unions and associations of trade, industry, transport, logistics and other spheres, as well as responsible officials from Ministry of Finance and the SRS are invited to participate. The issues related to customs work and acute for businessmen are being discussed in meetings. The businessmen are invited to send before the meetings their questions to receive competent answers in presence during the meeting and discuss current events with customs experts.

To ensure the availability of information about the work of Customs and Businessmen Advisory Council, since the middle of 2005 the information regularly is being published in separate chapter in the SRS web site about forthcoming meetings, agenda of meetings, protocols of meetings, presentations given within the framework of meetings and other informative materials.

To inform businessmen about the changes in legal provisions in the sphere of customs affairs, the SRS regularly – once in a month – send electronically to businessmen a bulletin where there has been summarised the information about the acute issues and changes of previous month carried out in national legal provisions regulated by customs affairs.

Researches carried out

The SRS purposefully strengthens the position – to develop as the service institution, the organisation directed towards the client that is available, encouraging, convenient and reliable to taxpayers. The SRS works a lot to accomplish step by step and persistently one of the prior objectives – to ensure qualitative service. To find out the opinion of taxpayers, the SRS constantly carries out the surveys of public opinion.

In 2005 the SRS organised one survey of public opinion to find out the point of view of the society about the image of the SRS. From November 11-21, 2005, 1 011 inhabitants at age from 18 to 74 years have been polled in direct interviews in all regions of Latvia in their living locations.



SRS AND SOCIETY

The results of the survey witness that the inhabitants, who had contact with the SRS, evaluate more positively the service of the SRS than the inhabitants who did not have direct contact with the SRS.

The great majority of the participants of the survey confessed that the SRS functions and tasks are comprehensible. The society basically associates the SRS with the work of tax administration and customs. By growing possession of information about the SRS, the common attitude becomes more positive. It should be noted that the information about the SRS in society most of cases – 70% of inquired respondents – comes from mass media.

There is still not an impeccable image about the SRS in the public opinion, though, there is a great number of things that are being evaluated positively – tax control, work of customs, competence of experts and knowledge are being highly evaluated. Along with positive things, there appear problems that are being indicated by the inquired respondents – bureaucracy, queues and deficiency of different explanations.

Analysing the results of the survey, it should be concluded that the progression of the SRS to the service institution, the organisation directed towards the client, has been noticed. It is witnessed by the fact that major part of the inquired respondents would not be worried by the invitation to come to tax office.

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Priorities

Priorities in the sphere of tax administration:

- continue to develop the work of consultation, information and education of taxpayers in issues of the application of legal provisions;
- encourage taxpayers to the opportunity to submit tax returns as provided for by legal provisions, to file reports or tax assessments in electronic format with electronic signature, using the Electronic declaration system;
- introduce Audit support information system in work of the SRS tax control, develop thematic check support information system;
- pay special attention to measures for the restriction of non-registered entrepreneurship;
- selecting taxpayers for tax control measures, priority will be given:
 - to the control of VAT, focusing on taxpayers who have developed negative differences of declared total business value against the information declared in tax returns by business partners, and taxpayers who carry out transactions in the EU member states;
 - to physical persons whose expenses exceed the declared income;
 - to taxpayers that have a risk that only a part from the work salary paid to employers is taxed or is not taxed at all.

Priorities in the sphere of customs affairs:

- strengthen the customs administrative capacity, developing and gradually introducing the following customs information systems – „Integrated Tariff Management System“, „The System of Administration of Agricultural Goods' Market“, „Automatic Identification System of Vehicles and Containers“;
- implementing the EU E-Customs initiative, to continue work on Export control system and introduction of Import control system, thus, ensuring in future electronic customs data exchange between member states in co-operation with other customs services of the EU;
- develop the analytical work of customs and ensure efficient risk management to promote the detection, combating and prevention of customs offences on internal and external borders of the EU;



PLANS FOR 2006

- implementing the money resources allocated within the framework of the project of Schengen Facility finance program, equip Customs Control posts of the Republic of Latvia with technical facilities and equipment necessary for qualitative work, as well as purchase 20 drug-detection dogs that will be trained in searching drugs;
- continue active co-operation with the EU institutions and ensure sufficient participation of Latvian customs representatives in development co-operation projects and in work of the EU institutions in the sphere of unified EU customs legislation development.

Priorities of the SRS Customs Criminal Board:

In 2006 the SRS Customs Criminal Board carries out work in accordance with „Prevention and Combating Strategy of Smuggling of the SRS Territorial Institutions for 2005-2009” (hereinafter –strategy). In the action plan of 2006 developed according to this strategy the following priorities of operation are determined:

- combating drug trafficking;
- combating organised crime.

Priorities of the SRS Finance Police Department:

- combating organised crime;
- combating legalisation of illegally obtained money resources;
- combating tax fraud;
- combating criminal offences that are related to the payment of „envelope salaries”.

Priorities of the SRS Excise Goods Department:

- in the sphere of the supervision of excise goods movement – supervision and control of the utilisation of excise tax guarantees, as well as the supervision of oil products (fuel), including the quality of bio-fuel;
- monitoring of the establishment of oil products’ reserves;
- establishment of information analysis system of excise goods’ movement risk in the System of Data storage to ensure the operation of information analysis system movement risk of alcoholic drinks, tobacco products and oil products (fuel) in the SRS structural units;

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- new functions – implementation of certification of small constant breweries along with existing licensing procedures.

Priorities of the SRS Corruption Detection Department:

- improvement of co-operation with the SRS structural units in control of income legitimacy of state officials;
- promotion of electronic submission of tax returns of state officials and lists of state officials.

Priorities of the SRS Finance Department operation:

- optimisation of money flow control system to ensure operative management of financial resources allocated to budget and minimise well-timed non-assimilation risk of the allocated financing;
- implementation of control measures in the SRS territorial institutions to analyse the co-ordination process management of changes of financing allocated to the budgets of the SRS territorial institutions that further would ensure the unified development of co-ordination system of changes of financing allocated to the SRS budget;
- improvement of methodical management and optimisation of co-operation with the finance employees of the SRS territorial institutions.

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Financial commitments

Financing allocated to *Phare* program, *Transition facility* assistance program and *Schengen Facility* financing program projects for 2006 (Ls)

Title	Financing plan of foreign financial assistance	Co-financing from state budget	Plan in total
Projects of <i>Phare</i> program			
2003/004-979-08-02 „Improvement of State Revenue Service Tax Control”	686 743	218 109	904 852
2003/004-979-08-01 „Integrated Tariff Management Systems and Evaluation of Risks”	1 949 531	642 714	2 592 245
2002/000-590-11-01 „Strengthening of Customs Administrative Capacity, Introducing Customs Strategy and the EU Mutually Compatible Data Bases”	744 724	41 476	786 200
2003/004-979-03-01 „The Establishment of Market Administration System of Agriculture Products”	137 046	20 733	157 779
LV/2003/IB/FI-08TL „Improvement of Customs Analytical Work”	23 895		23 895
LV/2003/IB/FI/02-TL „Improvement of Post-clearance controls”	18 063		18 063
2003/004-979-02-04 „Protection of Author’s Rights and Industrial Property Rights”	17 838		17 838
Total	3 577 840	923 032	4 500 872
Transition Facility assistance program project			
TF2004 “Strengthening of Fraud Combating Control”	666 785	262 269	929 054
Financing program of <i>Schengen Facility</i>			
Financing program of Schengen Facility	230 310		230 310



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Financing (Ls) allocated to prior activities of the State Revenue Service in 2006

Title of prior activity	Financing allocated to prior activity	Additionally allocated staff units
Introduction of the law of bio-fuel	217 367	9
Ensuring controls of personal income tax returns and acquisition of technical equipment	3 000 000	103
Increase of minimum monthly salary from 80Ls to 90 Ls	1 906	
Improvement of the infrastructure of the State Revenue Service information system	918 525	
Increase of the State Revenue Service capacity	3 850 722	24
Strengthening of customs administrative capacity	325 000	
Refund of excise tax on diesel fuel to farmers	6 655 762	

International projects

- It is intended to complete the implementation of Integrated tariff management system in 2006 in the European Union Phare project No. 2002/000-590-11-01 „Strengthening of Customs Administrative Capacity, Introducing Customs Strategies and Mutually Compatible Data Bases of the European Union“;
- Risk information management system will be developed till November 30, 2006 in the European Union Phare project No. 2003/004-979-08-01 „Integrated Tariff Management System and Risk Evaluation“;
- Data exchange system between the SRS and Rural Support Service will be developed till November 30, 2006 in the European Union Phare project No. 2003/004-979-03-01 „The Establishment of Administration System of Agricultural Goods' Market“;
- State procurement procedure and work on the development of Automatic identifying system of vehicles and containers will be organised in 2006 in the European Union Transition Facility 2004 program project No. 2004/016-998 „Strengthening of Fraud Combating Control System on the External Border of the EU“;
- the EU Phare Twinning Light project No. LV/2003/IB/FI-08TL „Improvement of Customs Analytical Work“ will be finished in May of 2006, the objective of which is



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to develop the analytical work of customs and ensure efficient risk management to promote detection, combating and prevention of customs offences on the internal and external borders of the EU;

- Work will be completed on the construction of Customs Control Post in May of 2006 in Šķirotava railway station in Riga, that is provided in the European Union Phare project „Customs Control Infrastructure in Ports and on Railway” and is being co-financed in State Investments’ program OP 03 „Customs Posts on Borders”;
- participation in the events of the EU Customs 2007 program, more actively utilising the opportunities of Customs 2007 program in the sub-program of Exchange and in the sub-program of Benchmarking;
- implementing the tender No.1 „Purchase of Technical Equipment within the Framework of Schengen Facility Finance Program” of Schengen convention finance program project No. VID/1/6 „Increase of the Efficiency of Persons and Their Belongings Control on External Border”, in 2006 there will be purchased radios, computer technique, photo, audio and video technique, roentgen facilities, tests for identification of drugs, night vision devices, communication facilities and other technical equipment;
- implementing finance program project No. VID/2/7 „Purchase of Drug-detection Dogs” of Schengen Facility, in 2006 it is planned to carry out the procedure of state purchase and sign the agreement on the purchase of 20 drug-detection dogs that will be trained on searching drugs;
- implementing the European Union E-Customs initiative, in 2006 the work will be continued on ensuring the implementation of the requirements of the Regulation (EC) No. 648/2005 of European Parliament and Council accepted in April 13, 2005 (amendments of The Code of Community Customs in the sphere of safety that provides the submission of the pre-arrival and pre-export tax returns, the conception of Acknowledged merchants and the establishment of Community Risk Management System), according to the EU Phare project No. 2003/004-979-08-01 „Integrated Tariff Management System and the Evaluation of Risk” in 2006 there will be carried out the work on the implementation of the government purchase No. FM VID 2005/628 „Development of Export Control System for the Requirements of the SRS”, it is planned to start work on the introduction of Import Control System in Latvian Customs in 2006.

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Planned researches

It is planned to carry out the following researches in 2006:

- Survey of target groups about the level of awareness of taxpayers and understanding about Electronic declaration system;
- Quantitative sociologic survey about the quality of taxpayers' service;
- Quantitative sociologic survey about the quality of customs clients' service;
- Quantitative sociologic survey on the SRS image in society;
- Survey of target groups on the SRS image in society.

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