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STATE REVENUE SERVICE PUBLIC REPORT 2020



Valsts ieņēmumu dienests

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Dear taxpayers, cooperation partners and colleagues,



For the State Revenue Service (SRS), 2020 has been a dynamic year full of responsibilities and changes. Despite the new challenges introduced by the virus, work has continued in order to encourage voluntary payment of taxes in Latvia, while ensuring excellent service to companies that have been conscientiously paying into the state budget, regardless of the business environment, as well as monitoring those for whom paying their share of taxes to the state isn't a priority.

During the pandemic, the SRS facilitated the entire society in

demonstrating their ability to work quickly and efficiently and to meet any challenges. The pandemic has not stopped global processes, for example, *Brexit*, and the important function of the SRS – accepting declarations from residents. Throughout the COVID-19 crisis, the SRS has ensured business owners have access to downtime benefits, salary subsidies and grants to compensate current assets. Moreover, understanding the unenviable situation of some business owners, these funds were provided sooner than stipulated by national legislation. In a short period of time, SRS has ensured that no delays affect work done by business owners regarding tax payments and customs procedures on account of Great Britain no longer being a European Union (EU) Member State from 2021. The SRS Electronic Declaration System (EDS) has been organised to ensure that on the first day residents were able to submit annual income declarations, it was possible for 300,000 taxpayers to do so within 24 hours.

Extensive work has been done to ensure that tax authorities are ready for the 1 July 2021 introduction of the e-commerce rules, which will mean that each shipment from third countries will have to be declared in accordance with EU requirements. This list could go on and in more detail. However, it is clear that the greatest challenge arose from assigning a completely new function to the SRS — payment of financial aid to business owners. The SRS has managed to take these steps successfully, proving that changes introduced in 2019 both within the SRS and in work done with taxpayers were correct and that they produced positive results.

SRS priorities for 2021 and the years to come remain unchanged — minimising 'envelope' wages, value added tax fraud, illegal movement of excisable goods, drug smuggling and the circulation of cash of illegal origin. We must work together to ensure that all these factors are seen as something unusual, a relic from the past, rather than an everyday occurrence. Together we have done a lot to achieve this goal and I am convinced that by continuing to work together, we will manage to make Latvia an even better country!

Ieva Jaunzeme,
SRS Director General

1. Background Information

1.1. Legal Status and Structure of the SRS

The SRS is a direct administration authority under the supervision of the Minister for Finance, which ensures the accounting of tax payments and taxpayers, the collection of state taxes, fees, and other mandatory payments determined by the state in the territory of the Republic of Latvia, as well as taxes, duties, and other mandatory payments for the EU budget, implements customs policy and handles customs matters.

The main tasks of the SRS are laid down in the Law on the State Revenue Service and the Law on Taxes and Duties.

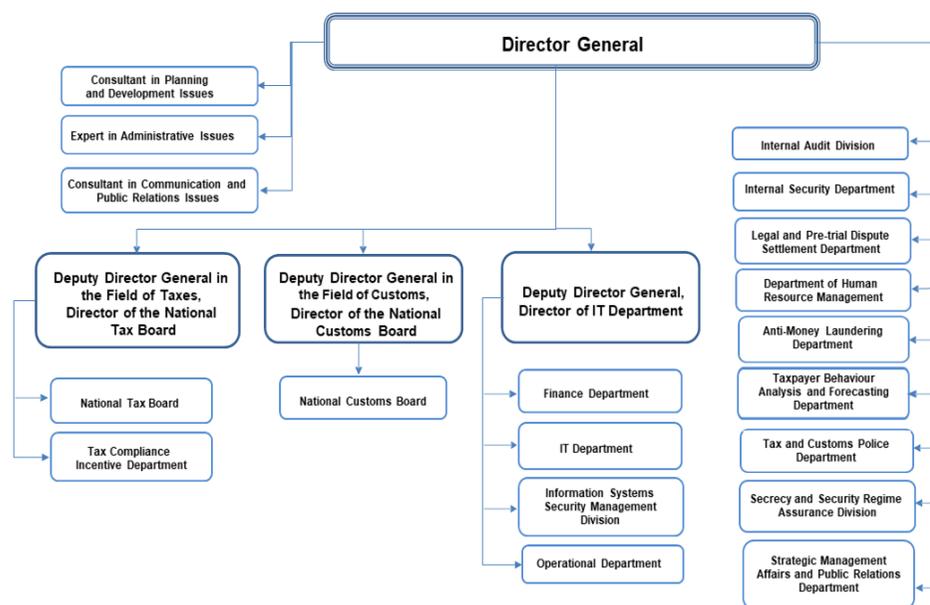


Fig. 1. Organisational structure of the SRS in 2020

Structural changes in the SRS in 2020.

As of 5 May 2020, under direct subordination to the SRS Director General:

- the Taxpayer Behaviour Analysis and Forecasting Department was established;
- the Tax Compliance Incentive Department was established, joining the Tax Control Department and the Tax Debt Enforcement Department;
- the Excisable Goods Division was included in the National Tax Board structure.

In turn, the property administration function entrusted to the state was given to the Finance Department.

As of 11 August 2020, according to the provisions of the State Administration Reforms Plan, the accounting function of the SRS was given to the State Treasury.

1.2. Priorities for 2020

In order to improve compliance with voluntary tax obligations, reduce the informal economy and strengthen civil protection, the SRS set the following **priorities** in 2020:

- segmentation of taxpayers for the further development of support services;
- minimising 'envelope' salaries;
- restricting VAT fraud;
- preventing money laundering and restricting the circulation of cash of illegal origin (*Moneyval* recommendations);
- reducing the illegal movement of excisable goods, the smuggling of narcotic substances and the illegal circulation of cash of illegal origin.

1.3. SRS Development Strategy for 2020-2022

SRS moto

Together we make Latvia even better!

SRS mission

The SRS is a reliable ally in tax and customs matters for honest business and public welfare.

SRS vision

Latvia is a country where everyone voluntarily fulfils tax and customs obligations.

SRS values

Professionalism, cooperation, loyalty, integrity, responsibility.

Strategic objectives and initiatives



Services compliant with customer needs — we know our customer

- Integration of analytics and development of data management.
- Segmentation of taxpayers according to their tax compliance discipline during the entire life cycle of tax administration (360-degree approach).
- Implementation of the tax compliance strategy, providing appropriate services to each segment.
- Services which are based on user experience and service design, as well as being convenient and easy to use.



Trust-oriented communication and cooperation — we trust our customer

- Targeted communication for promoting voluntary compliance with tax obligations.
- Communication language and method of communication (channel) appropriate to the customer's needs.
- Development of a digital ecosystem.
- Expanded cooperation for ensuring added value to partners.



Smart monitoring to promote an honest business environment and prosperity — we help to change compliance behaviour by sharing information and knowledge

- Using analytical knowledge and available material and technical resources, measures have been developed and implemented to promote the voluntary payment of taxes.
- Targeted actions and cooperation in detecting and preventing violations and criminal offences in the field of State revenues and customs matters.
- International cooperation and the introduction of EU-level requirements.
- Active, risk-based actions in the field of anti-money laundering and combating financing of terrorism in the SRS area of influence.



Professional, loyal, honest, responsible and cooperation-oriented employees

- Implementation of values in the everyday life of SRS employees.
- Work environment that supports employees' needs for achieving high performance results.

2. Performance Results for Attainment of Goals Set in the SRS Development Strategy and Implementation of Initiatives

2.1. Services compliant with customer needs — we know our customer

Development of analytics

To ensure an SRS tax administration approach that corresponds to the level of taxpayers' behaviour and voluntary compliance with obligations, which is aimed at strengthening tax payment discipline in the most efficient way, as of 1 May 2020, taxpayer **segmentation was introduced**. Its aim is to determine each taxpayer's affiliation to a particular group or segment, taking into account the most typical features of taxpayers in their tax compliance discipline.

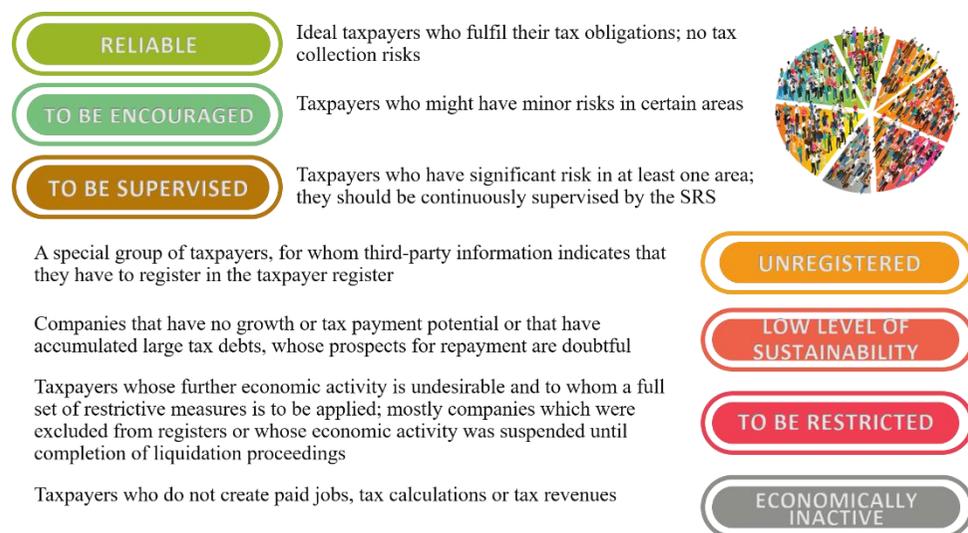


Fig. 2. Taxpayer segmentation concept

Tactics for the provision of horizontal services have been developed so that each segment of taxpayers receives the service in the most appropriate way.

The unique taxpayer **rating system** introduced in 2019 was supplemented with new indicators in 2020: compulsory collection of payments administered by the SRS; amounts additionally calculated within the framework of tax control measures; fines applied within the framework of thematic inspections; salary non-payment risks; VAT risks for transaction differences and

transactions with partners excluded from the SRS VAT Payer Register; and asset profitability indicator. The improved tool gives a fuller idea of the company's economic activities and estimation, as well as the payment of taxes into the budget.

For centralised data management, in 2020, implementation of the SAP HANA technological platform began. It will facilitate operative decision making in the field of controlling tax payment discipline, increase the volume of analysed data and provide a technological solution for storing a large volume of data, while integration with MAIS will facilitate the quick retrieval of information in real time for daily functions.

In the Electronic Declaration System (EDS):

- the EDS service *API (Application Programming Interface)*, which is used for data exchange between the taxpayer's accounting system or company's management system and the EDS, was introduced;
- a new service was created to obtain a resident of Latvia certificate, ensuring the resident of Latvia electronic certificate has the same legal force as that of the certificate containing a seal and signature;
- a new solution was developed to simplify the process of receiving the resident's relief certificate and reducing the time necessary to get it;
- new structured application forms were developed: 'Authorisation to apply special VAT regime to import transactions' and 'Authorisation to refund VAT for domestically purchased goods to an individual of a third country or third territory, who is not a taxpayer in the EU territory';
- structured applications were introduced for the receipt, re-registration and cancellation of special permits (licences), statements, permits and certificates for activities with excisable goods;
- two structured documents were introduced — 'Tonnage Tax Declaration' and 'Notification on the Use of State Capital of a Capital Company';

- new documents were introduced to receive support to overcome COVID-19 crisis conditions;
- the automatic filling in of e-receipts was introduced in taxpayers' profiles in the EDS sections 'Eligible Expenses' and 'Annual Income Declaration';
- several documents were supplemented with logical and mathematical controls that improve the quality of data.

In the area of the movement of excisable goods:

- for merchants who sell excise good to other Member States and third countries and use Latvian excise goods warehouses for consolidation of goods, the condition for obtaining a special permit (licence) for business activities with excise goods is abolished. Said merchants may carry out activities from an excise warehouse owned by another person;
- the retail sale of alcoholic beverages via a website or mobile application, using a distance agreement, is allowed;
- small distilleries are allowed to produce ethanol as a raw material and use it in the production of strong alcoholic beverages;
- The calculation of excise duty was simplified for liquids used in electronic cigarettes.

High level of service for customs customers — in 95% of cases, customs declarations in the green path are drawn up within the time limits determined in the SRS customs standard, i.e., up to 4 hours for import and export and up to 1.5 hours for transit.

Table 1. Fulfilment of performance indicators set out in the 2020 strategy within the framework of Objective No 1 “Services compliant with customer needs — we know our customer”

Performance results	Indicator	Compliance
The majority of taxpayers pay taxes voluntarily — in full and in a timely manner	Level of voluntary compliance with tax obligations (payment of taxes), %	57.5
	Level of voluntary compliance with tax obligations (declaration), %	58.2
	Share of merchants generating tax revenues out of the total number of merchants, %	71.9
	Share of the total debt against the common budget revenues, %	9.4
Increased productivity and efficiency of collection	Collected revenues per SRS employee, thousand, EUR	2,734
	Costs of one collected euro, EUR	0.0122

2.2. Trust-oriented communication and cooperation — we trust our customer

In 2020, the SRS implemented public communication aimed at providing information as timely and accurate as possible, as well as obtaining positive results from successful and honest business activity.

Given the crisis caused by COVID-19 and its impact on business activity, any communication in 2020 should be assessed within the context of people's concern about health, organisation of social life and their ability to keep their job / personal source of income. On the other hand, issues related to the maintenance of activity were crucial for business owners, especially in the sectors directly and indirectly affected by the crisis.

In its communication concerning successful and honest business activity, the SRS persistently stressed the direct correlation between honest payment of taxes and the possibility of receiving support from the State in the form of downtown or unemployment benefits.

In 2020, the SRS implemented extensive and diverse communication activities, including providing information on the SRS website with current information in the 'COVID-19' section, information for national and regional mass media, for business organisations; informative and explanatory visual materials, active communication on social platforms, online seminars for various target audiences, personalised letters in the EDS for relevant segments of the population and business owners, etc., to inform and explain the downtime benefits available to various groups of residents and businesses in relation to the spread of COVID-19 and the national emergency situation.

Observing the principle of good governance in mutual cooperation and communication with the customer, the 'Customer and SRS Cooperation Standard: Know and Understand Your Customer's Rights' was developed and published on the SRS website, in which SRS customers' rights in communication with the SRS in fulfilling tax and customs obligations are clearly outlined, as well as the obligations and behaviour of SRS employees towards the customer.

In order for each taxpayer to receive clear and understandable information and answers, a communication matrix has been developed that

provides the most suitable channel, language and content for each customer group.

SRS virtual assistant Toms

Based on taxpayers' conversations with the virtual assessment, Toms' knowledge is constantly supplemented and expanded. In general, in 2020, Toms provided answers to 210,973 questions regarding 30 topics of interest to taxpayers, including:

- customers' communication with the SRS — working hours, locations;
- registration at the SRS — in detail about the registration of economic operators;
- use of the EDS — connection options, general questions;
- annual income declaration — mandatory submission, types of eligible expenses, refunds and payment terms;
- eligible expenses and mobile application;
- with the growing number of individuals involved in settling customs formalities, as well as the approaching new requirements imposed by laws and regulations as of 1 July 2021 regarding the declaration of postal items and payment of VAT from the first cent, Toms also provided answers to questions concerning the customs clearance of postal items.

Electronic Customs Data Processing System (ECDPS)

To accelerate the settlement of customs formalities, in the ECDPS:

- the Electronic Transport Document (outgoing) functionality was introduced;
- the functionality for the automatic release of Import Customs Declarations was introduced;
- usability of the Import Customs Declaration functionality and the Temporary Storage functionality was improved.

The automatic release of goods under the import customs procedure has been introduced, which is applied to merchants with good tax payment

discipline who perform import procedures on a regular basis. In this way, the business of honest merchants is supported and facilitated, simplifying and accelerating the processing of customs procedures.

Changes have been made to the information systems to prepare for changes caused by the withdrawal of the United Kingdom from the EU.

With the launch of the E-Commerce Directive, customs information systems have been adapted to ensure the collection of VAT on all postal items from third countries.

Latvia-wide Receipt Lottery

Information provided within the framework of the Receipt Lottery was assessed and analysed in conjunction with information already available to the SRS.

In 2020, 1,540 taxpayers were identified — issuers of cash register receipts, whose total transaction value declared in the VAT declaration is less than the total amount of receipt transactions submitted to the lottery, incl., those with a total transaction value of EUR 0; of which 1,019 said taxpayers were subject to preventive measures and as a result:

- 157 warnings regarding exclusion from the SRS VAT Payer Register were sent and 11 taxpayers were excluded from the SRS VAT Payer Register;
- taxpayers adjusted their VAT declarations; thus, the amount of VAT to be paid into the budget was increased by EUR 1,885.21 thousand.

On the basis of the data obtained within the framework of the Receipt Lottery, tax payment incentive and control measures were taken:

- 18 thematic inspections, within the framework of which a fine of EUR 9.3 thousand was imposed for detected violations, 11 taxpayers themselves declared additional payments to be made into the budget for EUR 84.6 thousand, incl. VAT of EUR 67.0 thousand;
- 12 inspections and three tax audits were performed.

As a result of preventive and tax incentive measures via the Receipt Lottery, in 2020, budget revenues have been increased by EUR 1.93 million; whereas, during the year and a half, i.e., from the

beginning of the lottery on 1 July 2019, budget revenues have been increased by EUR 2.1 million.

‘Modernisation of Tax Information Services’ Project

Within the framework of MAIS Development Sub-project No 1, incl., within the framework of the ERDF project ‘Modernisation of Tax Information Services. MAIS Core’:

- the ‘Acceptance and processing of lists of public officials and declarations of public officials according to competence’ process has come to an end and processing declarations submitted by public officials has started in the MAIS production environment;
- maintenance, updating the database (register) and ensuring public access according to competence have been completed. Within the framework of this stage, 21 process functionalities were introduced in the MAIS production environment;
- five sets of data were published on the Latvian Open Data Portal at <https://data.gov.lv/lv> (‘Economy and Business’ section).

Within the framework of MAIS Development Sub-project No 2, implementation of the ERDF project ‘Modernisation of Tax Information Services (Accounting of Payments and Accrual Principle)’ continues, and within this framework a total of 62 process functionalities have been introduced in the production environment.

Along with introducing said process functionalities in the production environment, a single tax account was introduced and the accounting of state budget revenues administered by the SRS in accordance with the accrual principle was started on 1 January 2021.

At the same time, an external and internal communication campaign was implemented to inform the public about the introduction of a single tax account.

‘E-Customs’ Project

The ‘E-Customs (1st stage)’ project was completed on 24 April 2020, and as a result of implementing it:

- 18 core SRS processes were improved;
- 39 SRS customs e-services were improved;
- four data sets on the Latvian Open Data Portal were published.

Benefits for customs customers:

- accelerated processing of customs declarations;
- simplified customs clearance processes;
- electronic air cargo documents;
- electronic applications for customs permits and post-clearance;
- electronic customs permits;
- an electronic ‘simplified declaration for postal items to individuals’ was created.

In 2020, implementation of activities provided for in the ‘E-Customs (2nd Stage)’ Project was started:

- the 1st through 3rd stages of the 1st release of the Public Safety and Security Information System — for postal items (to perform risk control for postal items from third countries) — was developed;
- a concept and work schedule for the development of the new Automated Export System and Transit Control System 2, which will replace the existing ECDPS Export Control System and Transit Control System was developed;
- work has started on development of the 1st stage of ECDPS 2 — Automated Export System (AES) and Transit Control System 2 (TCS2).

Table 2. Fulfilment of performance indicators specified in the strategy in 2020 within the framework of Objective No 2 ‘Trust-oriented communication and cooperation — we trust our customer’

Performance results	Indicator	Compliance
The level of public trust in the SRS has increased, promoting voluntary compliance with tax obligations (51.2% in 2018)	Level of public trust in the SRS, % <i>(according to results of the study commissioned by the State Chancellery)</i>	39.3
	Share of SRS decisions contested in court, %	28.4
Effectiveness of SRS e-management has increased	E-index, points (max. 100)	— ¹
High level of customer satisfaction with quality of service provided by SRS employees	Services provided by the SRS to residents are assessed as excellent or good, % <i>(according to results of the study commissioned by the State Chancellery)</i>	65.8
	Level of customer satisfaction — average evaluation according to a 10-point scale <i>(according to results of a study ordered by the SRS)</i>	7.91
Involvement of the non-governmental sector in increasing voluntary compliance with tax obligations has been encouraged.	Satisfaction rating of industry associations regarding cooperation with the SRS, average rating according to a 10-point scale <i>(according to results of a study conducted by the SRS)</i>	7.67

¹ The MoEPRD study is performed once every two years; no study was performed for 2020.

2.3. Smart monitoring to promote an honest business environment and prosperity — we help to change compliance behaviour by sharing information and knowledge

To promote fair competition in business and voluntary compliance with tax obligations, in 2020 the SRS implemented both preventive and control measures to reduce the informal economy.

In 2020, 12,402 letters with an invitation to revise declared income were sent to submitters of annual income declarations for whom it was established that the difference between income and credit turnover in their bank account exceeded EUR 20 thousand for 2019.

In 2020, work also continued with individuals for whom it was established that the difference between income and credit turnover in their bank account exceeded EUR 300 thousand for 2018, and letters with an invitation to revise declared income were sent. As a result, 36 individuals declared additional payments to the budget for EUR 330.8 thousand; likewise, individuals and legal entities submitted 118 reports, declarations or their adjustments.

In turn, as a result of the control measures implemented, a total of **EUR 66.4 million** in tax losses were prevented, including the following:

- EUR 57.4 million — additionally calculated taxes (tax audits, data compliance checks, adjustment of tax amount, tax calculations as requested by the person conducting criminal proceedings);
- EUR 6.1 million — VAT losses eliminated by excluding from the SRS VAT Taxable Persons Register taxpayers for whom no additional estimations of VAT were performed;
- EUR 2.9 million — additional taxes declared by taxpayers themselves (within the framework of thematic inspections, data conformity checks, risk analysis and prior to tax audits).

In 2020, compared to 2019, the amount of tax losses prevented as a result of tax control decreased by EUR 33.2 million or 33%, which was affected by:

- a decrease in the number of tax control measures, taking into account the declaration of a state of emergency, as the majority of inspectors were involved in providing state support measures to taxpayers;
- the application of the ‘real-time verification’ principle in tax control measures, i.e., the activities of taxpayers are also monitored for the period during which the inspection is performed. In order to minimise the possibility of a taxpayer continuing to cause losses to the state budget during a tax audit, application of the real-time verification principle in the tax audit process continues — in 2020 this principle was applied in 65 tax audits or 30% of the total tax audits performed.

To ensure the appropriate application of customs payments, in 2020, by implementing customs control measures based on risk analysis results at the time of customs clearance of goods and post-clearance, possible losses of EUR 2.3 million were prevented.

In 2020, one of the main tasks for the SRS was to promote the payment of taxes, allowing taxpayers to fulfil their obligations voluntarily, thus promoting positive cooperation according to the goal of the ‘Consult First’ principle.

Application of the ‘Consult First’ principle

In 2020, the ‘Consult First’ principle at the SRS received an overall assessment of 84.8%, which is 6% more than the previous year. Among other things, the customer rating index was 75.8%, which is an increase of 7.8% compared to the previous year.

To ensure a common understanding of the principles regarding the application of administrative penalties, based on proportionality regarding a particular violation, **guidelines for the application of administrative violations were developed** ‘Guidelines on the Principles of Applying Sanctions for Administrative Penalties in Cases of Administrative Offences within the Competence of the State Revenue Service’.

In the field of tax administration, the ‘Consult First’ principle was applied to:

- 101,932 individuals by sending an invitation to submit an annual income declaration;
- 3,382 taxpayers for inaccurate Notifications on Amounts Paid to an Individual;
- 2,888 taxpayers for the correct completion of employer’s reports in the event of downtime benefits being paid to employees;
- Letters were sent to 1,404 individuals and 2,394 individuals were informed by phone about the declaration of income from real estate transactions, as a result of which PIT EUR 6,031.69 thousand was additionally calculated;
- 458 taxpayers, whose registered priority activity is ‘Electricity Production’, regarding the need to evaluate their submission of declarations;
- 196 taxpayers who specified calculated dividends in their corporate income tax declarations for 2019 yet did not submit notifications on amounts paid to an individual;
- 195 taxpayers whose income in micro-enterprise tax declarations or from selling timber and/or growing forest in 2019 exceeded EUR 40,000, but are not registered as VAT payers.

In the field of customs, the ‘Consult First’ principle was applied:

- in 75 cases under the supervision of customs authorisations by means of control measures;
- in data compliance checks — 229 taxpayers voluntarily eliminated detected discrepancies. As a result of data compliance checks, a total of EUR 1,025.8 thousand was additionally calculated and a total of EUR 510.6 thousand voluntarily adjusted;
- in 811 cases, by performing post-clearance audits and taking decisions on the transfer of a security deposit to the state budget or repayment;
- ‘On completion of export and import declarations’ letters were sent to the 10 declarants who had made the most mistakes in completing export declarations;

- in 356 cases, decisions on discharge from administrative liability were taken, considering the violation committed by an individual or legal entity in the field of customs to be insignificant.

In 2020, the **‘Consult First’ principle** was applied in **705 control measures**, resulting in taxpayers themselves additionally declaring taxes in the amount of **EUR 2.9 million**. The principle ‘Consult First’ was applied:

- in 422 cases, providing consultations on the application of laws and regulations;
- in 148 cases, during negotiations with company officials on an increase in salary;
- in 131 cases, inviting declarations for periods not audited to be corrected;

In the field of anti-money laundering, within the framework of the ‘Consult First’ principle, informing taxpayers about detected violations or discrepancies, in 340 cases taxpayers eliminated the violations themselves.

Measures for reducing the ‘envelope’ salary risk

In 2020:

- the SRS Handbook ‘Reducing Non-declared Employment Income’ was developed;
- **20 educational seminars** were organised for taxpayers on illegal employment and ‘envelope’ salaries;
- as a result of preventive measures, **1,100 employees were legalised** and additional contributions of **EUR 1,500.7 thousand** were made to the budget;
- thematic inspections of 330 employers were performed; for 60 cases, **finances totalling EUR 39.7 thousand were applied**; as a result of the preventive work, 176 taxpayers eliminated detected violations themselves and additionally declared MSSIC and PIT to be paid into the budget for a total of EUR 448.8 thousand;
- **36 tax audits** were performed with regard to ‘envelope’ salaries, within the framework of which MSSIC and **finances of EUR 6,735.9 thousand**, as well as PIT and fines of **EUR 3,062.7 thousand**, were additionally calculated;
- 222 taxpayers additionally declared MSSIC and PIT for a total of EUR 379.4 thousand within the framework of incentive measures;

- 18 criminal proceedings were initiated in the records of the SRS Tax and Customs Police Department. In 2020, five criminal proceedings were transferred for criminal prosecution.

As a result of the control measures, most of the additional payments to be made into the budget due to 'envelope' salaries were calculated for taxpayers operating in the field of transport and security services.

Disclosure and prevention of criminal offences

In the field of state revenues and customs matters, the following results were achieved in 2020:

- 1,189 criminal proceedings** were commenced, which is 4% less than in 2019;
- 279 criminal proceedings** were transferred for criminal prosecution, exceeding the respective figure of 2019 by 2%;
 - the amount of losses incurred to the state, which were established in criminal proceedings transferred for criminal prosecution, was **EUR 12.3 million**, which is 48% more than in 2019;
 - the harm prevented within the framework of criminal proceedings transferred for criminal prosecution, in cases where such harm could be calculated, amounted to **EUR 1.2 million**, which is a decrease of 71% compared to 2019;
 - property acknowledged as criminally acquired and transferred to the state budget amounted to **EUR 1.1 million**, which is an increase of 26% compared to 2019;
 - the operation of **18 organised criminal groups (OCG)** was detected and stopped: nine in the field of state revenues; six in the field of excise duty goods, and three in the field of narcotic substances, which in total is one OCG less than in 2019;
 - 20 criminal proceedings** were commenced on the non-declaration or false declaration of cash and/or money laundering; five criminal proceedings have been sent for criminal prosecution. A total of **EUR 54.3 thousand** in transported cash was seized;
 - 35 criminal proceedings** for money laundering the proceeds of crime have been initiated, of which **17 criminal proceedings** for non-declaration or

false declaration of cash and money laundering; **12 criminal proceedings** have been sent for criminal prosecution.

Major criminal offences detected

A group engaged in VAT fraud, which evaded tax payments, causing losses to the state budget of more than EUR 875,000, was stopped. During searches, a total of EUR 25,000 in cash, as well as drugs, arms and a grenade were found and seized. Criminal proceedings were initiated on evasion of tax payments by an organised group.



An illegal storage of tobacco products was discovered in Kurzeme. Approximately 10 tons of cut tobacco, 14 tons of tobacco leaves, 500 litres of diesel fuel, and tobacco cutting equipment were seized. Criminal proceedings were initiated on the illegal storage of tobacco products on a large scale.

The activities of an organised group of persons who laundered the proceeds of drug trafficking on a large scale, were stopped. A total of EUR 108,000, USD 4,010 and RUB 37,450 in cash, as well as evidence relevant to the criminal proceedings was seized. Criminal proceedings have been initiated for money laundering.





Photo: SRS

Upon detecting the illegal exchange of a sea container's contents, an illegal alcohol storage facility was also found; a total of 16.5 thousand litres of alcohol were seized; criminal proceedings were initiated on the illegal storage and transportation of alcoholic beverages on a large scale.

The most significant criminal proceedings sent to the prosecutor's office for initiation of criminal prosecution in 2020:

- against three individuals regarding tax evasion of more than EUR 2.5 million;
- against six persons regarding tax evasion of more than EUR 1.4 million and the laundering of these criminally acquired funds;
- against one person regarding large scale money laundering in connection with the non-declaration of cash for total of USD 243,000 and EUR 36,000;
- against two persons regarding tax evasion of more than EUR 1 million and the laundering of these criminally acquired funds.

Implementing customs control measures based on risk analysis has restricted the release into free circulation of contraband and goods that are dangerous and unsafe for the public. The number of bans on the import of goods dangerous to consumers increased by 51.44% compared to the previous year.

As a result of SRS activities in 2020, **the following excise goods and narcotic substances were seized:**

- cigarettes — 144,636,435 pcs.;
- alcoholic beverages — 39,994 litres;
- fuel — 65,681 litres;
- narcotic substances confirmed during examination – 3,658 g.



Photo: SRS



Photo: SRS

Within the framework of the European Economic Area (EEA) Financial Mechanism 2014-2021 Programme '**International Police Cooperation and Combating Crime**', two projects were launched:

- Preventing and Combating Economic Crimes at the 'Terehova' Border-Crossing Point;
- Promoting Cooperation of Law Enforcement Institutions in Preventing and Combating Economic Crimes in Latvia.

Prevention of money laundering

In 2020, the SRS implemented the following activities to facilitate the fight against money laundering and financing of terrorism:

- **769 on-site inspections**, based on risk analysis, and **114 remote inspections** were performed;
 - for **295** decisions adopted, sanctions totalling EUR 278,980 were applied, including **186 decisions** adopted on sanctions totalling EUR 177,500 for violations detected during inspections;
 - within the framework of 697 inspections, it was established that in 78.9% of cases, activities subject to the AML/CFTP law complied with the requirements of the AML/CFTP law and the Law on International Sanctions and National Sanctions of the Republic of Latvia, which is 1.9 percentage points higher than projected in 2020 (77%);
 - surveying of those subject to the AML/CFTP law was carried out and sectoral risk evaluations were prepared;
 - four seminars were organised on applying the AML/CFTP law for those subject to the law and for representatives of supervisory bodies, **511 persons were trained**;

- a new course ‘Applying the Norms of the Law on International Sanctions and National Sanctions of the Republic of Latvia’ was published in the EDS **E-Training Module** and two video seminars were published on the *Youtube* channel;

- **1,515** consultations were provided by phone, in person and electronically;

- As a result of inspections, **21 materials** were prepared for sending to law enforcement authorities.

In accordance with the provisions of the AML/CFTP Action Plan for 2020-2022, the SRS implemented several crucial measures:

- a risk assessment was developed for the groups of subjects under the supervision of the SRS and included in the risk assessment project developed by the FIU;

- a solution or concept was developed for simplifying the procedure for reporting on suspicious transactions, including stipulating termination of the parallel suspicious transaction reporting system and provision of information on suspicious transactions to the FIU and the SRS via a single channel; likewise, draft MoC regulations were developed with regard to reports on suspicious declarations and threshold declarations;

- work was carried out with the submitters of annual income declarations, for whom it was established that the difference between income and credit turnover in their bank account exceeded EUR 20 thousand for 2019. In 2020, 12,402 letters with an invitation to revise the declared income were sent;

- guidelines on risk countries were updated, several SRS internal regulations were improved and updated, the SRS has developed NGO risks for supervisory purposes.

Table 3. Fulfilment of performance indicators set in the strategy in 2020 within the framework of Objective No 3 ‘Smart monitoring for promoting an honest business environment and welfare – we help to change behaviour in fulfilling obligations by sharing information and knowledge’

Performance results	Indicator	Compliance
As a result of applying the ‘Consult First’ principle and performing preventive measures, voluntary elimination of discrepancies and violations increases	Proportion of taxpayers who update their own declarations during tax payment incentive measures, out of all taxpayers, for whom tax payment incentive measures were started, %	30.0
	Discrepancies eliminated by taxpayers themselves in the VAT declaration as a result of preventive measures performed, calculating additional VAT payable to the budget or reducing the amount of overpaid VAT, million EUR	22.6
The portion of the public that does not fulfil obligations stipulated by laws and regulations has decreased	Proportion represented by the informal economy, %	<i>No study was performed</i>
	Assessment of illegal circulation of tobacco products, % (<i>for 2019</i>)	13.6
	Proportion of non-declared employment income in the business sector, % (<i>for 2019</i>)	17.3
	Effectiveness of customs physical controls, %	27.57
Restriction of organised crime achieved	Activities of organised crime groups ceased, number	18
	Proportion of criminal proceedings transferred for criminal prosecution in priority fields out of total proceedings transferred for criminal prosecution, %	83.9
Money laundering and financing of terrorism risks have been reduced	Proportion of those subject to the AML/CFTP law whose activity complies with requirements for enforcing the AML/CFTP law and the Law on International Sanctions and National Sanctions of the Republic of Latvia, %	78.9

2.4. Professional, loyal, honest, responsible and cooperation-oriented employees

Self-development and growth of managers and employees was promoted

Continuing the change of training culture at the SRS, informative events on professional growth and development, training and development methods were organised (model 70:20:10). Implementing project-based training:

- the training ‘Development of Strategically Important Competences’ was continued, focusing on developing the skill ‘Cooperation’;
- the training ‘Successful and Effective Solution-oriented Communication by Phone, in Person and in Writing’ was started, within the framework of which an e-course was developed;
- supervision of seven groups was implemented within the framework of the ‘Professional Development with Supervision’ training project;
- a career planner has been developed and improved, promoting the self-development and professional growth of SRS employees.

Opportunities for remote work were created

Taking into account the consequences of the spread of COVID-19 and the state of national emergency, supporting more flexible working conditions and opportunities for remote work, information was gathered on positions that cannot be performed remotely, necessary infrastructure was created and the concept of a secure remote work space was developed. Applications from 1,658 SRS employees to work remotely were approved, and as of 31 December 2020, 1,571 SRS employees were working remotely.

The SRS internal virtual assistant was introduced

The virtual assistant Anna is available on the SRS website and is able to answer employees’ questions about SRS internal regulations and work organisation.

SRS processes were improved

The process of administration of taxpayers’ cases was optimised, with a view to reducing the volume of paper documents; likewise, measures were taken to put files in order and to file documents that had long not been organised; case repositories were reduced from ten to eight.

Internal circulation of employee correspondence was automated

SRS employees were provided the possibility of submitting 17 types of applications electronically via the DMS, which is seven more than the previous year. In total, the number of applications submitted electronically by SRS employees via the DMS increased by 32%.

The concept of work environment and use of premises was implemented

In Rēzekne and Bauska, the concept of adapting the premises’ functionality to various work environments (individual work, cooperation, rest), universal design, as well as the building’s technical condition with modern ventilation, air conditioning and energy efficiency, were implemented.

The car fleet was optimised

- the car fleet was reduced by 22 vehicles and a lease of six new vehicles for the needs of dog handlers was entered into;
- all SRS vehicles have been equipped with telematics devices for tracking travel routes and a modernised vehicle monitoring and control system that ensures automatic generation of routes (traffic signs).

SRS value ambassadors

To promote the implementation of SRS values, including creating a positive public image of the SRS, as well as to implement effective internal communication, the SRS value ambassadors movement was created and continues its work, organising communication and surveys on current issues for SRS employees.

Table 4. **Fulfilment of performance indicators specified in the strategy in 2020 within the framework of Objective No 4 ‘Professional, loyal, honest, responsible and cooperation-oriented employees’**

Performance results	Indicator	Compliance
‘Integrity’ — the actions of SRS employees promote the prestige of the SRS	Proportion of taxpayers and customs customers who assess the behaviour of SRS employees in tax collection, tax control and customs control measures as honest, % average weighted (<i>according to results of a study ordered by the SRS</i>)	87.9

3. Statistics on Services Provided by the SRS

In 2020, 230 public services were available to SRS customers, including 228 services, or 99.1%, for which electronic request and/or receipt was ensured. Whereas the following two services could be applied for and received in person: ‘Cash Declaration’ and ‘Notification of Movement of Excise Goods’.

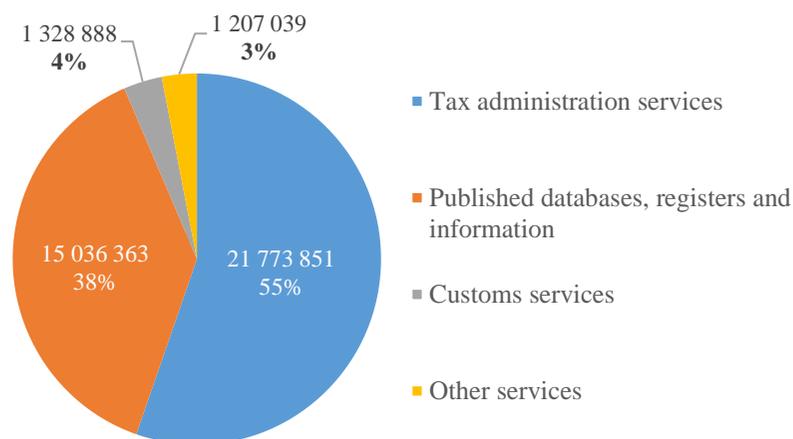


Fig. 3. Number of services provided by the SRS by service groups, 2020

In total, the SRS provided 39,346,141 services to customers in 2020, which is 11.5 % more than in the previous year.

Of the total range of services provided by the SRS, in 2020, SRS customers used tax administration services the most, accounting for 55% of the total range of services provided by the SRS. In total, 21,773,851 tax administration services were provided, which is 3% more than in the previous year. The following services were provided the most frequently:

- statement on amounts paid to individuals – 12,641,548;
- payment status of budget payments – 2,327,052;
- employer’s report – 1,173,902.

Taxpayers used the information from databases and registers made publicly available by the SRS in 15,036,363 cases, which is 34% more than in the previous year. The following was the most commonly used information from databases made publicly available by the SRS:

- Register of tax debtors – 8,826,971;
- SRS VAT payer register – 2,400,466;
- published portions of public officials’ declarations – 1,980,217;
- Register of special permits (licences) and certificates for activities with excise goods – 1,003,765;
- Register of individuals engaged in economic activity – 365,302.

1,328,888 services were provided in the field of customs, the most popular being the following:

- Notification of transportation of excise goods – 370,823;
- customs procedure – transit – 330,778;
- customs procedure – export – 169,374;
- customs procedure – release for free circulation – 200,455;
- temporary storage declaration for placing goods in a temporary storage place – 100,627.

Other services were provided in 1,207,039 cases, including:

- consultations on the application of laws and regulations – 782,227;
- services in the field of excise duty – 165,379;
- e-services on the public administration portal www.latvija.lv – 106,383;
- services to public officials – 80,458;
- replies to inquiries on issues within the competence of the SRS – 71,840;
- SRS information on the rights of an individual in their particular legal situation – 534;
- paid services – 218, collecting EUR 15,355 into the budget.

Table 5. Paid services provided by the SRS, 2020

Paid service*	Number
Sales of strict accountancy seals	109
Opinion on the compliance of marked (labelled) petroleum products with legal requirements of the Republic of Latvia	85
Performance of analyses to determine the Combined Nomenclature code and <i>TARIC</i> code	16
Customs clearance of goods outside the customs office location or working hours	8

*In accordance with Cabinet Regulation No 345 of 19 June 2018 "SRS Paid Services Price List".

In turn, the ten most frequently received services make up 85% of all services provided.

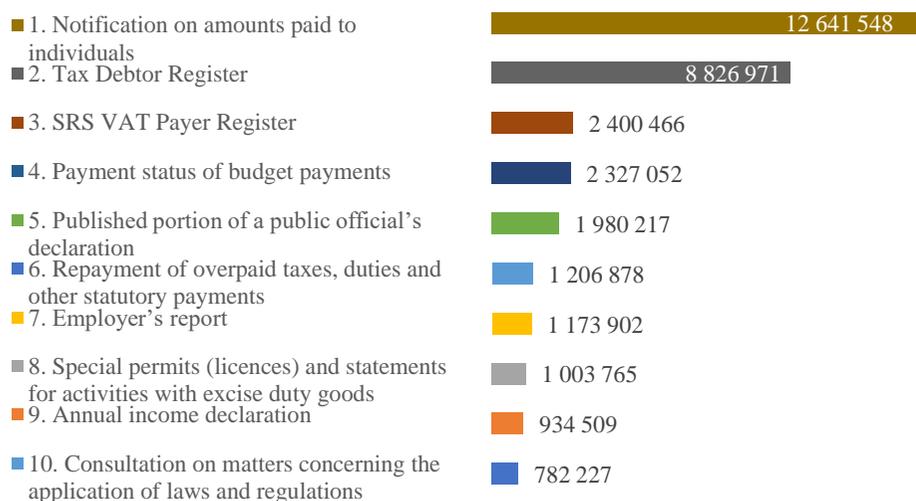


Fig. 4. 'Top 10 services' with the largest number of service recipients, 2020



Fig. 5. Most important channels for requesting and receiving SRS services

Guidelines have been developed for monitoring the quality of telephone conversations with customers in order to ensure a communication language appropriate to the customer's needs and to implement open and cooperative communication with taxpayers.

In 2020, the number of consultations provided via the hotline increased by 60%, which was affected by the limited availability of in-person services due to the COVID-19 pandemic. In order to improve accessibility of the advisory hotline, the specialisation of tax consultants was introduced, dividing questions into those asked by individuals and those by legal entities. This contributed to a decrease in the proportion of unanswered calls and waiting times in the call queue.

4. Financial Resources and Their Use

4.1. State Budget Funding and Its Use

In accordance with the Law on the State Budget for 2020 and orders of the Minister for Finance of 2020, in 2020, the SRS used the funds allocated in the budget in compliance with the approved basic budget programmes, sub-programmes, measures to cover revenue collection expenditures (revenues), and planned expenditure estimates and financing plans.

Table 6. Total funding allocated to the SRS in 2020 and its use, EUR

No	Financial indicator	in 2019 (actual implementation)	in 2020	
			approved in the Law and orders of the Minister for Finance	actual implementation
1.	Financial resources expenditures (total)	122,452,919	221,559,840	221,307,487
1.1.	subsidy	121,457,939	219,644,712	219,644,712
1.2.	paid services and other own revenue	195,204	283,439	195,991
1.3.	foreign financial aid	785,076	1,083,888	918,983
1.4.	transfers	14,700	547,801	547,801
2.	Expenditures (total)	122,506,093	221,620,694	18,159,480
2.1.	maintenance expenses (total)	111,251,173	208,496,401	175,908,080
2.1.1.	current expenses	111,051,417	113,026,230	112,219,352
2.1.2.	subsidies, grants and social benefits	179,799	95,048,201	63,266,759
2.1.3.	current payments to the European Community budget and international cooperation	19,957	265,803	265,802
2.1.4.	transfers of maintenance expenses	0	156,167	156,167
2.2.	expenses for capital investments	11,254,920	13,124,293	12,251,400

4.2. SRS-administered total budget revenues, 2020



Fig. 6. Budget revenues administered by the SRS for 2016–2020, million EUR

In 2020, total budget revenues administered by the SRS were EUR 9,862.99 million, which is EUR 640.42 million or 6.1% less than planned, including tax revenues of EUR 9,368.03 million collected or 6.6% less than planned, whereas the amount of non-tax revenues collected was EUR 494.96 million or 4.1% more than planned.

In 2020, tax and non-tax revenues administered by the SRS and collected to the general budget were EUR 53.39 million or 0.5% less than in 2019.

The decrease in revenues was affected both by the measures introduced in spring 2020 to limit the spread of COVID-19 and the restrictions kept after the state of emergency was lifted in the summer period, as well as the declaration of a second state of emergency on 9 November 2020, when even stricter measures limiting economic activity were introduced.

Use of budget programmes and sub-programmes and their performance results

EUR 221.3 thousand of the state budget funds allocated to the SRS in 2020 were used, or 99.4% of the planned amount.

Table 7. Use of funding allocated for implementing budget programmes and sub-programmes in 2020

Programme/ sub-programme	Funding used in 2020	
	thousand, EUR	% of the planned
33.00.00 programme "Ensuring State Revenue and Customs Policy"	121,230.0	99.4
62.09.00 sub-programme "Implementation of Projects and Activities of the European Regional Development Fund (ERDF)"	2,937.7	83.6
71.07.00 sub-programme "Projects Funded by the EEA and Norway Grants"	33.4	22.1
73.02.00 sub-programme "Repayments into the State Budget for the Financing of Projects Co-funded by Financial Aid from Other Countries"	154.2	100.0
73.06.00 sub-programme "Financial Resources Allocated Within the Framework of Agreements between the European Commission (with Participating Member States) and Tobacco Manufacturers"	376.1	63.7
73.07.00 sub-programme "Projects Financed by the European Commission for Improvement of the Internal Market Within the Tax and Customs System"	291.3	100.0
73.08.00 sub-programme "Projects Implemented by the State Revenue Service in the Field of Protection of Financial Interests"	273.4	90.0
99.00.00 sub-programme "Contingency Funds"	62,859.5	66.4

4.3. Funding allocated for the implementing priority activities

The Cabinet, in examining the applications for priority measures, i.e., measures that comply with the Latvian National Development Plan for 2014-2020 and other development planning documents, approved funding to the SRS for implementing seven priority activities in 2020.

Table 8. Funding allocated for priority measures in 2020

Name of the priority measure	Funding, EUR
1. Strengthening the capacity of Ministry of Finance institutions, including to combat the informal economy, to attain the strategic goals of the SRS (including for remuneration of customs officers, inspectors and financial police officers)	2,272,661
2. Continuing reform of the SRS administrative structure, including strengthening the capacity of the previous agreement on the market value of the transaction and transfer pricing	1,500,000
3. Elimination of money-laundering and financing of terrorism risks	533,163
4. Modernisation of tax information services (including creating the Payment Administration Information System and ensuring functionality)	6,000,000
5. Creation of the second SRS data centre	96,800
6. Strengthening analytical capacity in the areas of tax revenues, risk management, and taxpayer segmentation	370,096
7. Implementing the Receipt Lottery to reduce the informal economy in sectors most at risk	400,000
8. Implementing the action plan for preventing money laundering and financing of terrorism for the period until 31 December 2019	1,870,078
Total:	13,042,798

5. Personnel

At the end of 2020, the SRS had 3,889 positions, while the number of employees actually employed was 3,595.

Over the year, the number of positions was reduced by 69, including 17 positions transferred to the State Treasury; other positions were eliminated, optimising and improving the tasks and processes set by the SRS.



Fig. 7. Evolution in the number of SRS positions for 2016–2020

Out of the total number of SRS employees:

- 89% are civil servants and 11% are employees;
- 74% are women and 26% are men;
- 96% have higher education.

In 2020, the SRS entered into civil service and employment relationships with 248 officials and employees and terminated these relationships with 279 officials and employees. Thus, the staff turnover rate is 13.91%, the staff renewal rate 6.87%, and staff departure rate 7.04% (the calculation of the rates does not include data on the reduction of the number of officials and employees).

The average monthly salary of SRS employees in 2020 was EUR 1,423, which is 2.1% more than in 2019 and 3.5% more than in 2018.

SRS Badges of Honours, SRS Certificates of Appreciation and Certificates of Gratitude, as well as cash prizes, were awarded to 295 SRS employees for professional, honest and dedicated work and significant

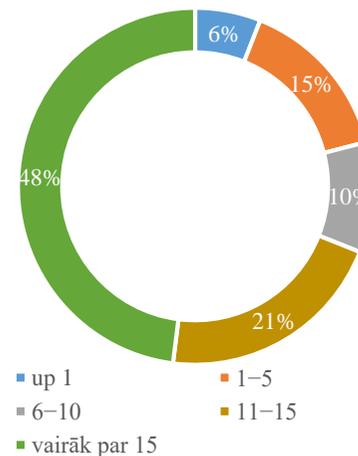


Fig. 8. Distribution of SRS employees by length of service, 2020

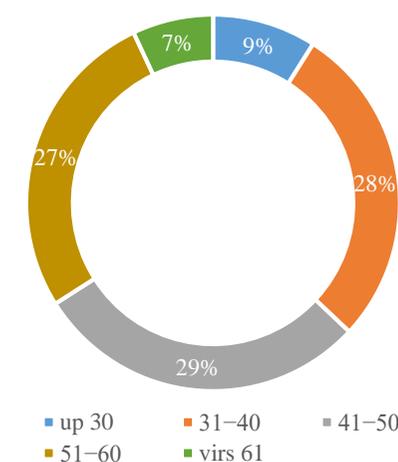


Fig. 9. Distribution of SRS employees by age, 2020

personal contribution to the development of the SRS and attainment of goals in 2020. Three SRS officials were presented with Certificates of Gratitude from the Prime Minister.

Disciplinary action was taken against 39 SRS employees in 2020; of these, 11 employees were reprimanded, the monthly salary of 19 employees was temporarily reduced and nine employees were dismissed.

In 2020, SRS employees participated in 417 various training events (courses, seminars, webinars), of which 7% were provided by SRS in-house lecturers. The main training topics were communication – 6%; computer studies and information technology – 6%; legal and administrative issues – 8%; management training – 9%; tackling organised crime – 17%; customs – 18%. 154 training courses are available for professional development in the SRS e-training environment.

6. Communication with the public

The SRS has always emphasised that clear and honest communication that is understandable to the taxpayer plays a very important role, as it affects trust in the institution, which in turn has a positive impact on the voluntary compliance with tax and customs obligations. To promote public awareness of the importance of fulfilling tax and customs obligations in improving state welfare and the reputation of the SRS as an open and efficient, modern and cooperative public administration institution, active and purposeful communication with the public has been implemented.

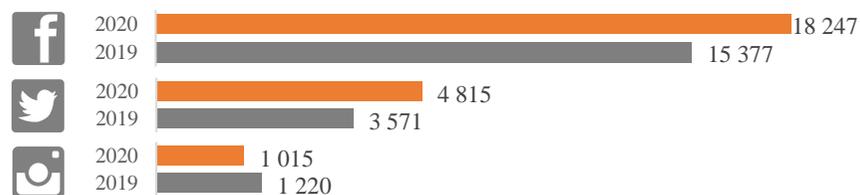


Fig. 10. Number of SRS followers on social media

On the SRS website:

- in the section ‘Tax Changes 2021’, current information on changes in the field of taxes has been published, as well as video recordings of SRS seminars, seminar presentations and answers to questions asked during the seminars;
- the section ‘Single Tax Account’ provides information on both the transition to the single account and the FIFO (‘first in – first out’) and accrual principle in tax administration;
- 12 methodological and informative materials for business owners and two informative materials for private persons were published in the ‘Brexit’ section with explanations on the application of customs procedures, changes in travel and trade with the United Kingdom following *Brexit*, clearance of postal items, conditions for transporting food products of plant origin in personal luggage and other current issues;
- up-to-date information on all downtime support measures provided by the SRS, as well as other relief in the area of taxes, excise duty goods and customs in connection with the prohibition or restrictions of economic

activities during the COVID-19 crisis, was published in the ‘Covid-19’ section, as well as a list of self-employed persons and employers who have received downtime and subsidy support.

8,577,122	Average time spent by one user on the website	On average 2,041	Maximum number of views – on 1 March
unique views per year	~ 2 min	views per day	471,378

Fig. 11. SRS website traffic statistics, 2020

Cooperation with mass media

- four press conferences were organised:
 - on the results of the Receipt Lottery;
 - on the taxpayer’s rating;
 - on the support provided by the SRS during COVID-19;
 - on two launched projects for preventing and combating international crimes;
- 228 press releases were sent out on various issues within the competence of the SRS, including tax revenues, the organisation and results of the Receipt Lottery, deadlines for tax and customs obligations, the single tax account, progress in combating the informal economy, detected cases of ‘envelope salaries’, criminal offences in the area of customs and in the area of state revenues, e-environment (EDS) services, cooperation with business associations and industry associations, participation of SRS management and experts in various seminars and conferences in the area of taxes and customs, tax changes in 2021, as well as changes in the area of taxes, excise duty goods and customs due to *Brexit*.

Educating and informing customers:

- the SRS participated in the international exhibition ‘Balttour2020’ by providing information about the customs requirements to be observed when crossing the EU’s external border or receiving items from third countries,

and at the same time by introducing the customs work to the public with engaging activities and demonstrations.

- nine video seminars were organised on current tax administration issues: four live video seminars on the single tax account, three live seminars on support to businesses affected by the COVID-19 crisis, two video seminars on *Brexit* for business owners and inhabitants, two video seminars on subjects pertaining to the AML/CFTP law;

- a webinar for business owners entitled ‘How to Establish an e-Company: from A to Z’ was organised, during which e-commerce and tax payment issues were explained;

- an educational seminar for entrepreneurs, ‘A practical guide to taxes and attracting financing for business start-ups’, was organised in cooperation with the Financial Institution ‘Altum’;

- regular interviews were given on “Rīta Panorāma” on LTV 1 and “900 sekundes” on TV 3, as well as the Rīga TV 24 programme “Uz Līnijas”, “Latvijas Labums”;

- four seminars on the application of the AML/CFTP law for those subject to the law subjects and representatives of supervisory bodies were organised; 511 persons were trained;

- information was sent via the EDS regarding the e-training courses ‘Requirements for fulfilling the AML/CFTP law and the law on international and Republic of Latvia sanctions’ and ‘Application of international and Republic of Latvia national sanctions norms’. The final test was passed by 2,826 individuals/entities subject to the AML/CFTP law;

- 180 methodological and informative materials on tax issues, 95 visual materials, including 65 infographics, opinion articles posted on the SRS website and social networks, as well as a booklet on *Brexit*, were prepared and updated.

Educating and informing schoolchildren and young people:

- participation in the ‘Smart Person’ project has ended — educational video material and three infographics for young people on tax payment issues have been published. Materials were distributed on social networks and made available to teachers across Latvia on the portal soma.lv;

- participation in the ‘Shadow Day’ project organised by ‘Junior Achievement Latvia’, when 75 students shadowed SRS employees whose daily work relates to various SRS areas of activity; 18 of the students visited regional divisions of the institution;

- participation in the career event ‘A step towards success’;

- an educational excursion to the SRS was organised and two guest lectures for students of educational institutions (Rezekne Technical School);

- from 1 January 2020 to 31 December 2020, while in-person guest lectures were still possible, SRS lecturers conducted 33 lectures within the framework of the school programme ‘Ready for Life’ for 8th and 9th grade students in various Latvian schools during social studies lessons on the topic “I know and understand what taxes are, the benefits of paying taxes and the risks of not paying them”;

- participation in the seminar ‘Finance Management for Youth NGOs’ organised by the Riga Youth Centre ‘Kaņiers’ to explain to youth organisations how to conveniently prepare and correctly structure their financial documents in order to feel secure and confident in their activities. During the seminar, an SRS official explained to the young people the components of supporting documents and annual reports for associations, foundations, trade unions and religious organisations and their submission to the SRS;

- practical and educational excursions were organised at several customs control points for UoL students, Ventspils Creative Centre summer camp groups, and students of Rezekne Technical School and the Saldus branch of ‘BUTS’ training centre;

- lectures and initial demonstrations by customs dog handlers at educational institutions;

- participation of customs representatives in the ‘Don’t Miss Your Future’ career day organised by Riga Technical University on 6 March 2020 at the International Exhibition Centre in Ķīpsala.

Participation in five promos and information campaigns:

- ‘Fake Reality... Still Reality’ – in cooperation with the Patent Office to inform the public about intellectual property violations and the damage they cause to the national economy and employment, as well as to human safety and health;
- ‘Days without queues’ – in cooperation with the MoEPRD, for which the chosen slogan this year was ‘Do it digitally – your new lifestyle!’;
- ‘#FraudOFF’ – in cooperation with the Ministry of Finance to promote ‘zero’ tolerance to fraud and the various forms it takes in society;
- ‘STOP smuggling’ – in cooperation with *Philip Morris Latvia*, the aim of which is to raise the issue of smuggling in the media and society;
- ‘Public official shadows an entrepreneur’ – in cooperation with the Ministry of Economics, so that those drafting and implementing legislation can evaluate the operation of the regulatory framework created by the institution directly with the user, and exchange experiences.

Cooperation with public, non-governmental and private sector partners

Four SRS advisory councils are working to improve the dialogue with unions and business associations, non-governmental organisations, and other interested parties, as well as to jointly address various tax administration issues. In 2020, **the SRS advisory councils held a total of eight meetings:**

- three SRS advisory council meetings, at which issues regarding the VAT registration process, changes in tax payment procedures, refunding overpaid VAT, the VAT divided payment model and ECP operations were reviewed;
- one SRS advisory council meeting, at which SRS proposals for amendments to tax legislation concerning the publication of SRS decisions were reviewed and discussed;
- one meeting of the customs and business advisory council, at which current customs issues were reviewed, including the results of the ‘E-Customs (1st Stage)’ project and further development of the system,

operation of the information system and issuance of automatic import customs declarations;

- three meetings of the SRS excise duty advisory council, at which current issues surrounding the circulation of excisable goods, trends in excise duty revenues, planned changes in legislation and the single tax account were reviewed.

Signed and renewed cooperation agreements

In order to jointly fight against tax evasion and ‘envelope’ salaries, promote conditions of fair competition and interest business operators in showing initiative and understanding in sorting out issues concerning compliance with tax obligations in their sector, the SRS signed five new cooperation agreements in 2020:

- on 17 February 2020 – with the Latvian Association of Caterers;
- on 3 November 2020 – with the Latvian Association of Cartographers and Geodesists and the Latvian Association of Surveyors;
- on 13 November 2020 – with the Latvian Restaurant Association;
- on 7 December 2020 – with the Smokeless Industry Association.

At the same time, five cooperation agreements were renewed in 2020 — with the ‘Farmers’ Saeima’ association, the ‘Association of Safety Industry Companies’, the Latvian Food Traders Association, the Professional Cleaning and Management Association of Latvia, and the Latvian Road Builders Association, making necessary changes to the terms and conditions of the agreements.

In total, as of 30 December 2020, agreements have been concluded with 37 foundations and sectoral associations.

Awards, recognitions, and evaluations received by the SRS

- at the rating announcement ceremony, the Ministry of Economics certificate of gratitude was awarded for the implementation of the ‘Consult First’ initiative and its inclusion in the group of leaders, creating an excellent business environment in Latvia;
- a certificate of gratitude was received from the ‘Mission Possible’ foundation, organiser of the ‘Ready for Life’ programme, for contribution

to the improvement of students' competencies and strengthening the education system in Latvia;

- to express appreciation to SRS management and employees for long-term, close and effective cooperation, the State Border Guard awarded certificates of honour to two SRS officials and a certificate of recognition to the Latgale unit of the Dog Handlers Division of the SRS National Customs Board for support provided in the enhanced inspection of vehicles and premises within the framework of State Border Guard investigations.

SRS studies

As a result of research conducted in 2020, it was established that:

- the satisfaction rating of industry associations regarding cooperation with the SRS (on a scale of 1 to 10) was 7.67 (exceeding the respective 2019 figure by 0.27 points);
- according to SKDS study data, the overall customer service rating of SRS taxpayers and customs customers (on a scale of 1 to 10) was 7.91 (below the respective 2018 figure by 0.15 points). The taxpayer service quality rating was 7.87 (exceeding the respective 2018 figure by 0.02 points), whereas the customs customer service quality rating was 7.94 (below the respective 2018 figure by 0.32 points).

Measures for overcoming the COVID-19 crisis

Within the framework of the law on 'measures to prevent and overcome state threats and their consequences due to the spread of COVID-19' and the law on 'coping with the spread of COVID-19 Infection', from 12 March 2020 to 30 June 2020 — during the period of downtime caused by COVID-19 (the 1st wave of COVID-19):

- the SRS has paid 134,428 downtime benefits for a total of EUR 53.8 million. A total of 55,201 individuals received these benefits on one or more occasions, including 52,832 employees (EUR 51,460.67 thousand) and 2,395 self-employed persons (EUR 2,357.42 thousand);

- 218,428 refunds of overpaid VAT were made (including redirection of overpayment to cover other tax payments) for a total of EUR 485 million;

- 1,929 inspections of companies were performed, during which 2,994 registered addresses of divisions were verified.

Support granted for overcoming the COVID-19 crisis from 9 November 2020 to 30 December 2020 (2nd wave):

- downtime and subsidy benefits were paid to 28,566 employees for a total of EUR 8.27 million;

- downtime benefits were paid to 2,896 self-employed persons for a total of EUR 0.84 million;

- downtime benefits were paid to 709 patent payers for a total of EUR 0.22 million.

From 18 December 2020 to 30 December 2020, five grants were allocated to ensure the flow of current assets for a total of EUR 22.55 thousand.

Pursuant to Section 3 of the law on 'measures to prevent and overcome state threats and their consequences due to the spread of COVID-19' and Section 4 of the law on 'overcoming the spread of COVID-19 infection', extensions of tax payment terms were granted from 12 March to 30 December 2020 for a total of EUR 160.58 million.

Support was provided to state and public benefit organisations to overcome the COVID-19 crisis in the area of customs payments. From 1 March 2020 to 31 December 2020, by not applying import duties and VAT to goods imported to overcome the consequences of the spread of COVID-19, importing goods necessary for the needs of the Emergency Medical Care Service, National Health Service, National Defence Military Facilities and Procurement Centre, Children's Hospital Fund, and the National Centre for Defence Logistics and Procurement (face masks, respirators, medical gloves, overalls/protective clothing, coveralls, aprons, surgical hats, medical shoe covers) for a total value of EUR 32.9 million, an exemption from import duties was applied for a total of EUR 8.35 million.

The application of Section 13 of the law on ‘overcoming the spread of COVID-19 infection’ in 2020 allowed 165 ECP participants to maintain their programme participant status and programme level and six programme participants to change their programme level while maintaining their programme participant status.

Starting from March 2020, the SRS has implemented extensive and diverse communication activities to inform and explain to various groups of inhabitants and business owners the downtime support measures available with regard to the spread of COVID-19. Information was provided to national and regional mass media and business organisations, explanatory visual materials were published, live seminars were organised for various target audiences, personalised letters were sent through the EDS to the relevant segments of inhabitants and business owners and active communication was carried out on social platforms.

7. Activities Planned in 2021

Major directions for SRS activities

Purposefully continuing to implement strategic initiatives set out in the SRS Development Strategy for 2020–2022, aimed at promoting voluntary compliance with tax obligations, reducing the informal economy and strengthening public protection, the challenges and priorities for the SRS in 2021 are as follows:

- development of the analytical function, improving taxpayer segmentation to provide the most appropriate set of services to each segment of taxpayers;
- improvement of convenient and easy-to-use services based on user experience and service design – for EDS and customs services;
- development of the digital ecosystem by implementing MAIS and customs environment development projects;
 - targeted communication to promote voluntary compliance with tax and customs obligations;
 - introduction of SDI account solutions;
 - minimising undeclared work income and limiting the payment of ‘envelope salaries’, including reducing the salary gap;
 - reducing VAT fraud in order to keep the VAT gap at the EU average;
 - maintaining or reducing the level of movement of illegal excise goods;
 - detecting and preventing criminal offences in the area of state revenues and customs matters;
 - preventing money laundering and restricting the circulation of cash of illegal origin;
 - providing support to business owners affected by the COVID-19 crisis;
 - improving the infrastructure of customs control points.

Planned studies:

- job satisfaction of SRS employees (SRS study);
- satisfaction assessment of industry associations regarding cooperation with the SRS (SRS study).

Abbreviations used in the report

USA – United States of America
DMS – Document Management System
EDS – Electronic Declaration System
ECDPS – Electronic Customs Data Processing System
ERDF – European Regional Development Fund
EU – European Union
FIU – Financial Intelligence Unit
PIT – personal income tax
UoL – University of Latvia
MAIS – Payment Administration Information System
CoM – Cabinet of Ministers
AML/CFTP – Anti-Money Laundering and Countering the Financing of
Terrorism and Proliferation
NGO – non-governmental organisations
OCG – organised criminal group
ECP – Enhanced Cooperation Programme
VAT – value added tax
IEA – income from economic activities
SKDS – marketing and public opinion research centre SKDS
MoEPRD – Ministry of Environmental Protection and Regional
Development
SRS – State Revenue Service
MSSIC – mandatory state social insurance contributions