1. **Basic information**

1.1. **Desiree Number:** LE01.02.01  
1.2. **Twinning number:** LV/2001/IB-FI-01  
1.3. **Project title:** "Institutional strengthening of Tax and Customs Administrations"  
1.4. **Sector:** Internal Market – Customs and Taxation / Administrative Capacity  
1.5. **Location:**  
   Latvia, State Revenue Service.  
   Responsible institution: State Revenue Service  
   Owner of the project: State Revenue Service  
   Contact person: Mr. Andris Anspoks SRS Deputy Director General  
   Smilsu 1, Riga, Latvia, LV-1050; phone +371 7028600, fax +371 7028696.

2. **Objectives**

2.1 **Overall Objective(s)**

To organise work of tax and customs administration so as to increase the performance efficiency and to ensure a sustainable growth of revenue collection into the budget.

2.2 **Project purpose:**

To achieve the administrative and operational capacity of tax and customs administration in order to increase voluntary compliance and reduce the tax and customs evasion.

2.3 **Accession Partnership and NPAA priority:**

The activities of the project will help to implement the following priorities of the

**Accession Partnership:**

- **Short-term**
  - Continued modernisation of tax and customs administration;
  - Continue prevention activities against fraud and corruption.

- **Mid-term**
  - Complete reform of tax and customs administration; strengthen administrative co-operation and mutual assistance and increase the efficiency of tax audits;
  - Reinforce administrative and operational capacity; develop efficient border control posts.

The project will contribute to the achievement of the tasks outlined in the following technical fiches of the V National Programme for the Adoption of Acquis

**LS-002, (Modernisation of State Revenue Service) 2.1:** Optimisation of SRS organisational structure and methods of operational management;  
**LS-002 (Modernisation of State Revenue Service) 2.3:** Improvement of the efficiency of customs control and elimination of the corruption risks in customs;  
**LS-002 (Modernisation of State Revenue Service) 2.3.3:** Accreditation of the customs laboratory and certification of methods.  
**LS-002, (Modernisation of State Revenue Service) 2.4:** Development of the SRS IT system.

3. **Project description**

3.1 **Project justification:**
The law “On State Revenue Service” adopted in 1993 created a single tax and customs institution – State Revenue Service by merging Latvian Customs and Financial Inspection, as well as setting up several new supports structures.

The State Revenue Service is a state governmental institution functioning under supervision of the Minister of Finance and it ensures recording of taxpayers, collection of state taxes, fees and other state mandatory payments within the territory of the Republic of Latvia and on the customs border, as well as implements state customs policy and carries out customs matters.

The State Revenue Service has successfully started and is continuing modernisation of tax and customs administration by implementing the SRS Modernisation Project 1998-2002 developed in 1998 in co-operation with the experts of the International Bank of Reconstruction and Development.

A Strategic Plan of the State Revenue Service for 1999-2003 has been developed including all major directions of development in tax and customs areas.

One of the main directions of the SRS Strategic Plan is to create a modern tax and customs administration in compliance with the EU standards. This objective has become increasingly important after the declaration of the Republic of Latvia to proceed on the course of integration into the EU and the beginning of the EU accession negotiations by Latvian government.

The EU customs and fiscal blueprints have been developed and approved by the EC in 1998 and 1999 respectively with the purpose to meet the EU requirements in tax and customs administration. On the basis of Gap Analysis and technical needs analysis The Business Change Management Plans have been developed to implement the customs and fiscal blueprints. These initiatives are the cause of setting new tasks, not included in the previously developed projects – for the implementation of effective management and operational performance of tax and customs administrations, as well as providing high quality services to the SRS clients, and the functioning of the specific EU IT systems. All these requirements have been systematised into 13 customs and 11 fiscal blueprints.

“SRS IT Strategic Plan” based on a long-term programme for the creation of a common SRS IS has been developed and is being implemented in order to ensure common approach to tax and customs administration. Development of a tax IS, customs IS and a common IT infrastructure are the main directions of the IT project’s development. The project is implemented by involvement of all interested parties including system’s users and developers.

In 1998 the SRS Training Strategy has been developed and approved, setting an objective to develop an effective training organisation system, oriented towards systematic improvement of SRS staff development thus ensuring an effective implementation of the SRS core business.

The SRS Human Resources Strategy is under development in the framework of the Twinning component of Phare’99 project No. LE-9903.01 and it will be one of the SRS Business Strategy’s components strengthening the implementation of the SRS policy on personnel management issues with an objective to motivate a creative and successful staff performance.

EC Regular Progress Report 2000 in the chapter “Tax policy” also has stated that Latvia is constantly progressing towards the approximation of the legislation with the aquis, as well as made some serious developments towards the strengthening of the administrative capacity. Nevertheless, keeping in mind the achievements, Latvia still has serious problems with the capacity, and tax administration needs effective further improvement. The respective Report has specially underlined the necessity to find more effective solution for the prevention of tax evasion and avoidance.

In order to comply with the conditions of the requirements specified in the EU customs and fiscal blueprints and directives of the EC Report, the SRS has to have sufficient amount of resources
and the administrative and operational capacity in conformity with the contemporary demands, so as to ensure a sustainable increase of budget revenues.

To achieve this objective, the improvement of performance in three directions has been planned, integrating tax and customs administration developments.

The planned activities are based directly on the EU customs and fiscal blueprints, there is no overlapping with the activities already undertaken by the SRS, and they are developed with the objective to ensure the conformity with the EU requirements for tax and customs administration, to strengthen the tax and customs administration to reach sufficient capacity, so as the SRS would be able to act on adequate level of efficiency under a common framework of the EU legislation.

**The directions of the SRS performance:**

1) Strengthening administrative and operational capacity, thus ensuring the implementation of tax, and especially indirect tax collection and control strategy based on risk assessment and analysis.

At the accession moment of the EU the tax and customs administrations have to have a clearly set collection and control strategy objectives, have to define a performance policy needed for their development in conformity with the new requirements – cancelling of financial control on the EU internal borders and incorporation of a state into the common market activities.

**Risk assessment** is an essential part of tax and customs administration performance, especially in the situation when tax and customs administrations receive limited resources and is subject to a constant risk of tax avoidance and evasion. One of the risk management tools to provide a possibility to make projections of potential risk areas of tax avoidance and evasion is **analysis of the trends of new developments in legislation and business activities**. On the basis of the analysis as well as the performance results a tax and customs administration must be able to react on the environmental changes both on national and international level, optimising the redistribution of the resources to perform the basic functions – tax collection and control.

An SRS Strategic Plan for 1999-2003 has been developed as well as annual Business Plans are developed for the SRS territorial offices, and risk analysis is used for audit selection, but nevertheless there is no common overall strategic development and support process, there is no integrated approach to the risk assessment, business planning and finance management. The SRS management is provided with insufficiently substantiated and detailed information about the impact of new developments in legislation and business activities upon tax revenues and resources needed for their administration; there is no structural unit responsible for these functions.

The SRS Modernisation Project includes the development of a revised SRS structure model – the transfer from the current SRS “function-driven” structure to a “process-driven” structure. The main three processes have been determined:

♦ Operational activities (including tax and customs administration implementation)
♦ Ensuring strategy and development
♦ Performance of support functions.

A centralised strategic support structural unit is planned to be developed to ensure the SRS strategy and development, with the basic objective of strategic and business planning, analysis and control of the SRS core business and financial resources.

Such innovations cause the need for additional support of staff to obtain the necessary experience, knowledge and skills in the development of such systems in conformity with the new requirements and to train the personnel of the new structure.

There are plans to achieve these objectives:

♦ To improve the risk assessment and analysis system and its application for the distribution and redistribution of national resources to eliminate tax avoidance and evasion;
♦ In co-operation with the specialists of the Ministry of Finance to develop a system for analysing the trends of new developments in legislation and business activities, their impact upon revenue collection and the required administrative resources;

♦ To improve the revenue collection and tax control strategies in conformity with the EU requirements.

The aforementioned system for analysing new development trends in legislation and business activities will provide support for the development of control activities with the objective to create a system to detect and prevent illegal transactions and reduction of tax fraud and tax avoidance and evasion.

This direction of activities is in close relation with the aforementioned EC Report about Latvia from 2000, where the necessity to strengthen the developments for tax evasion prevention has been specially underlined.

This project includes parallel to the development of activities on strategic level the improvement of specific control activities with special attention paid to their development to ensure additional revenue collection and prevention of distortion of competition for the voluntary compliant taxpayers.

To speed up the detection of tax fraud and tax evasion, serious attention has to be paid to the processing of taxpayers’ tax returns and statements, strengthening the credibility checks at the moment of their receiving. That will provide additional information for the audit selection as well as give the possibility to find and eliminate impartially the possible errors in tax calculations, thus ensuring additional revenues to collect.

Statistics show that 70-75% from the additionally assessed amounts in the result of audits is not collected in fact, and this constitutes significant financial resources – counted in millions Lats every year. (But the amounts themselves, assessed additionally during the tax audits are increasing every year – both as real amounts (in 2000 by 13% more than in 1999) and as a proportion of the state general budget revenues (in 2000 6.2%, but in 1999 5.6%). Besides that, comparing the proportion of each tax type where the additional amounts have been assessed we see that the main tax type is VAT, constituting 28% from all the additionally assessed amounts. This fact proves the necessity to develop and implement a methodology of tax returns’ and statements’ credibility checks, special attention being paid to the VAT calculation correctness.

Information about taxpayers is of great importance for tax administration – both the information provided by the taxpayer and the information obtained from third parties. Today the SRS does not have a common system to obtain and collect more comprehensive information about all taxpayers and tax arrears, regular its updating, analysis and processing for the use of different target groups of the tax administration. Today the structural units of the territorial offices make use of only that part of information, which they have happened to collect, but more comprehensive activities of information gathering from all available sources and its systematisation have not been implemented.

The Acquis communautaire Regulation 218/92, Directive 77/799/EEC and Directive 76/308/EEC, with later amendments specify that the EU member states’ tax and customs administrations have to perform a range of functions. Their implementation requires sufficient skills and knowledge as well as technical resources. The aforementioned Acquis communautaire include the provision of mutual assistance of member states in the area of direct and indirect taxation:

♦ Exchange of information at a request from the tax administration of the recipient member state;

♦ Automatic exchange of information on regular basis without preliminary request;

♦ Spontaneous exchange of information

All this information is vitally important for both national tax and customs administration and tax and customs administrations of other states.

For this reason it is envisaged to develop a specific structural unit for information gathering, responsible for the development of information management system covering all the functions of
organised information collection, servicing, development of a database and analysis, as well as its processing in appropriate breakdowns for the needs of each SRS functional structural unit. Parallel to the development of such a Specific information structural unit it is necessary to provide them with a sustainable IT technologies – computers both in central administration and in the regions, thus ensuring a high quality implementation of the information systems.

Due to the position of Latvia as a transit country, the number of illegal transactions has been growing steadily over the recent period of time having a significant impact on the amount of revenue collection and especially on the collection of excise tax. In order to prevent such illegal activities it is necessary to strengthen the control of excise goods and oil products in particular. Therefore it is crucial to improve the specific technical equipment and analytical instruments as well as skills of the personnel using it.

2) To increase the level of IT systems stability and security, to develop a tax and customs administration IT system in conformity with the requirements of the EU, ensuring the compatibility with the EU information systems.

For effective performance of tax and customs administration functions it is necessary to have flexible integrated information systems that would support the strategies of core business activities and ensure quick access to information.

In conformity with the EU directive No.96/9 “On legal protection of databases” and the EC Convention of 1981 “On personal data protection” the SRS has to implement the EU policy on information access, data protection and security. So the SRS has planned to develop internal regulations for information storing and use, and to develop a structural unit competent and responsible for data protection and security.

The development of a Data warehouse as a centralised system for the integration of tax and customs information has been planned under the framework of the project. The result of the system’s implementation will be quick access to analytical reports about the performance of the SRS for the staff of the SRS central administration and territorial offices, Ministry of Finance, and other involved state officials. The system has to serve as an instrument for analysis for the specialists of analysis to prepare and management to take important decisions. The system will aggregate all information about the performance of the SRS having direct or indirect impact upon the decision making. Parallel to that the system will serve as the basis for risk analysis and audit support system.

The development of the SRS information system in tax and customs area is a mandatory precondition for the EU accession and the requirements of it to the SRS information system are described in the customs and fiscal blueprints, setting the objective to develop computer systems compatible with the EU systems’ protocols.

As can be concluded from the above mentioned descriptions and specifications of EU systems, these systems must be developed to exchange information between member countries and EU in the areas specific to these systems.

The data necessary for information exchange with EU in the framework of these systems can already be located in the Tax and Customs IS of the SRS. As a preliminary analysis proves, the data are incomplete and not always corresponding to the demands of EU. To ensure exchange of information it is necessary to accomplish the following activities:

- In-depth analysis and evaluation of the relevance of format and contents of the existing data;
- Changes in the existing IS and in the existing legislation if necessary;
- To develop relevant IS for exchange of information with EU, ensuring the compatibility with the existing IS of the SRS.

The present situation testifies that the development of such systems must be made in a complex manner involving the developers and maintainers of the existing IS of SRS and other developers with experience and knowledge in Latvian legislation concerning Tax and Customs areas. Successful implementation of these activities will require that:
• systems must not only be developed and implemented, but also their on-site maintenance and updating must be ensured by providing consultations to the users in Latvian language;
• the systems must be developed in closed co-operation with SRS specialists ensuring the communication of Latvian language because not all of SRS specialists have sufficient knowledge of foreign languages;
• the documentation of these systems must be developed in compliance with Latvian standards and in Latvian;
• The developers must know Latvian legislation.

The requirements about the information technologies are based on them, as they are needed to ensure the access to the information about VAT, excise tax, fraud cases and other information of interest for the member states both in customs and tax administration (INTRASTAT, VIES, SEED, FISCAL SCENT, AFIS, etc.). To ensure the necessary information exchange between the EU member states about the issues of VAT, the framework of the project includes the plans to develop a CLO. It is important to provide the CLO with the necessary resources, powers and competence to provide these services.

This is the reason for the necessity to get possibly complete and detailed information about the requirements of the aforementioned IT systems, the system’s architecture, organisation of data exchange, as well as the experts assessment of the conformity of the SRS IT systems to the EU information systems, the necessary changes in tax and customs IS and the development of an infrastructure for its support to establish a clearly regulated mutual assistance and co-operation activities and the powers and rights for the electronic information exchange with foreign tax administrations.

To ensure the development and implementation of an appropriate IT system, additional PHARE funded technical assistance is needed for the development and implementation of the respective software, the supply of the standard software licences as well as providing the CLO office with the necessary hardware.

The development of the EU specific computer systems will result in:
- Secure exchange of information with the EU information systems and tax and customs administrations of other countries;
- Improved control preventing the illegal import into Latvia of smuggled goods, weapons, drugs and radioactive goods;
- Improved possibilities to protect the economic interests by elimination of illegal import and export flow;
- A possibility developed to co-ordinate the tax base and tax rates, thus ensuring the development of economy and create a possibly neutral attitude towards the international trade from the tax revenues aspect.

The IT department are responsible for the implementation of activities related with the IT development and implementation, and they are responsible for the maintenance and administration of the developed systems, too.

3) The increase of the level of voluntary compliance by allocating more resources both to taxpayer support and to public information and education on taxpayers’ rights and tax issues using various means of communication.

One of the most important tasks for any tax and customs administration is to provide support for the taxpayers and customs clients thus facilitating voluntary tax compliance.

Development of a modern client servicing oriented organisation ensuring development and implementation of a uniform taxpayers’ service system in all the SRS territorial offices is the basis for the SRS strategy. Taxpayer service halls are set up in the SRS territorial offices within the framework of the SRS Modernisation Project with the purpose to improve the services to taxpayers and customs clients and to shorten the time period needed for tax compliance.
To provide for the rights of the taxpayers to appeal against the decisions taken by tax administration, customs and enforcement officials, one of the priorities of the Modernisation project for the years 1998-2002 is the development of a specific institution for pre-trial investigation of tax disputes. A two-level pre-trial investigation appeals structure, independent from the tax and customs administrations, will be developed at the level of the SRS Central administration and the SRS regional offices. The SRS Central administration Appeals division started the activities from the year 2000. Currently we are developing the new appeals system and improving the legislation related with the order of appeals against the decisions of the tax administration.

In the framework of the SRS Modernisation Project a serious efforts are put into improvement of the taxpayers servicing system but parallel to that SRS has to continue to strengthen the status of a service institution. It is necessary all the time to find and develop new services of tax and customs administration for taxpayers support, to create a situation when the SRS will be known to public as a comprehensive establishment and honoured for its honesty, credibility, fair attitude and professionalism.

Due to limited resources the SRS is not able to make sufficient investments in the taxpayers education and information. But this is one of the main preconditions for the improvement of taxpayers and public attitude towards the SRS, strengthening of its credibility, and as a result of that – increase of taxpayers voluntary compliance.

To provide the possibility for tax and customs administration to have a high quality performance, there is a necessity for additional resources to create and to implement a uniform and nationwide taxpayers servicing system. For this reason the project includes several interrelated activities to improve the SRS services, related with the taxpayers support, education, access to a timely and reliable information by taxpayers and public in general.

As the SRS is transferred into a three-level hierarchic structure organisation the procedures of taxpayers services also have to be changed, and that causes the necessity to develop a uniform service providing policy. Taxpayers appreciate a possibility to receive quick, precise and high quality information about their fiscal situation, their rights and obligations, and issues of tax liabilities. The SRS has developed a Homepage to provide information to the taxpayers, but today the Internet services are still available to a limited range of taxpayers. So it is necessary to develop informational materials, especially for the target group of small and medium businesses and non-residents. Considering the changes in Tax legislation and Tax and Customs Administration caused by EU requirements for the integration in to the EU additional information needs to be provided for the taxpayers.

To improve the business environment in Latvia, the Foreign Investor Council has suggested a range of activities to limit the difference of tax laws’ interpretation by tax administration staff on different levels of the organisation and in different geographical locations. To ensure the uniformity of tax information and to make it quickly and easily available a system will be developed for a uniform application of tax legal provisions and a centralised hotline telephone will be installed. Taxpayers will have access to the tax information without having to go anywhere – either from their office, or at home, or anywhere else. This approach will result in a uniform tax law interpretation in the whole country, quick access to the consultations as well as reduce the compliance costs of the taxpayers. In such a system the consultations will be provided by high quality specialists, specialised in a particular tax problems or specific issues of tax administration.

In order to meet EU requirement about the implementation of electronic document, electronic exchange of information with taxpayers is planned to develop. The offer of this service currently being used simultaneously with submission of tax reports and returns in the form of hard copy by a insignificant part of taxpayers can be completely introduced only after respective Law On Electronic Document comes in force.

3.2 Linked activities:
1. The SRS investment project “The IT of state revenue and customs policy implementation”  
1997 -2003 years - 29.04 MEUR.

The new Tax information system has been developed and introduced in all the SRS territorial offices under the project’s framework. Activities for the development of the remaining functions are implemented in accordance with plans. The Tax information system includes electronic exchange of information in on-line regime with registers of state importance (Enterprise register, Citizens’ register, State Social Insurance Agency, State Treasury).

In the framework of development of Customs information system a Central customs database is under development in conformity with the changes in Customs legislation, and the implementation of ASYCUDA++ project is also continued. Today ASYCUDA++ is implemented in 52 customs control posts. ASYCYDA will cover most of the tasks of the Customs IS - as a result of full implementation of ASYCUDA all customs posts will work in accordance with a uniform technological scheme, enhancing the information collection and analysis capabilities. The other functions of Customs IS will be covered by the ‘Centralized Customs Payment System” that will ensure accounting and control of customs payments and by risk analysis software TIMS (Trade Information Management System) that would later be replaced with the risk analysis module of ASYCUDA. Besides work is in progress on the development of a national risk analysis software that will include information exchange interface compatible with ASYCUDA. Interface of data exchange between the information systems of “Latvian Railways” and ASYCUDA has been developed and information on railway transportation is used.

All these activities will create basic functional system for the SRS performance support, and this is only the first step to ensure high quality of the SRS functions’ implementation. The customs and fiscal blueprints were developed at the same time with the determination of requirements in the area of the EU information systems, and their implementation is also included in the framework of this project.

2. The SRS Modernisation project for 1998-2002 (developed in 1998 in co-operation with experts of the International reconstruction and development bank) - 5,00 MUSD loan

The reorganisation of the organisational structure of the SRS, optimally re-allocating the functions performed by the SRS, changing the currently existing two-level structure into a three-level structure is included in the framework of the SRS Modernisation project. Such a three-level structure is functioning in 2 SRS regions since April 22, 1999.

To improve the services to taxpayers and customs clients, the client service halls are developed in the SRS territorial offices. On January 1, 2001, in total 21 client service hall was functioning in the regional centres and villages of Latvia. In the years 2001 and 2002 the SRS will continue the development of regional client service halls in all the country.

Parallel to these activities a model of the SRS structure changes is being developed – the transfer of the SRS current “function oriented” structure to a new “process-oriented” structure. Three main processes have been defined:

- Operational activities (including the implementation of tax and customs administration),
- Ensuring strategies and development,
- Performance of support functions.

The implementation of the aforementioned Modernisation project tasks as well as the integration of Latvia in the EU causes the necessity to improve the currently existing and develop new customs and tax administration regulations, rules, working methods and procedures on all the levels of the organisation. This includes the increase of administrative and operational capacity of tax and customs administrations as well as the improvement of the taxpayers’ service system in all the country.

3. PHARE’96 project No:LE-9605.01 “Assistance to Latvia in tax matters” - 2.26 MEUR

The technical assistance planned in the project has been implemented in three areas: legal consultations, improvement of tax administration, development of tax legislation and training of personnel. In the result:

- The laws “On excise tax on oil products”, “On excise tax on alcoholic beverages” and “On excise tax on tobacco products” are developed.
- A new draft law on VAT is developed with the objective to facilitate the improvement of tax collection’s effectiveness.
- Suggestions about the amendments of the law on VAT about the leasing transactions are developed and submitted to the Ministry of Finance.
• Methodological instructions on the application of VAT to the timber transactions are developed.
• Amendments and additions to the laws “On taxes and duties”, ‘On the State Revenue Service” and several other legal provisions related to tax issues are made.
• The suggestions of consultants are implemented in the development of an audit manual and other methodological materials.
• The existing administrative procedures of the SRS are assessed, and suggestions for the improvement of the strategic planning system are developed.
• “Train the trainers” courses, courses on taxpayers’ services, personnel management strategic planning, evasion of indirect tax payment and auditing of financial institutions have been organised.

4. PHARE’98 project No:LE-9806.01 “Promotion of internal market capacity and enforcement” – 0,8 MEUR.

Project components:
1. Policy of economy.
2. State aid.
4. Tax audit.
5. Standardisation.

Under the component Tax audit the following was developed and approved:
• High level analysis of core business;
• User needs’ analysis;
• User requirements;
• Project technical specifications.

5. PHARE’99 project No:LE-9903.01 "Strengthening of tax administration: institutional strengthening/development of human resources and development of tax audit management system” – 2,00 MEUR.

Project components:
1. Computer based training;
2. Supply of training equipment;
3. Consultations on human resources development management (twinning): During the implementation of the project a detailed research and analysis of the currently existing functions of the personnel divisions, the opinion of the SRS middle and senior management about the current situation in the function activities of personnel divisions has been assessed, as well as the necessary resources have been estimated and the needs assessed in the area of personnel management. Further on the main strategic directions of the SRS personnel management will be defined and the SRS strategic plan for the personnel management will be developed.

It is planned to finish the project till the end of the year 2001.

4. Computerised audit selection system – Under the framework of this component the activities are included in PHARE project LE 9806.01 "Promotion of internal market’s capacity and enforcement”, continuation of the component 4 “Tax audit”. There it is planned to develop a computerised audit system with the development of a computerised audit-working place inclusive.

The project will be implemented by May 2002.

All three aforementioned projects are related with the improvement of tax audit particularly, it being one of tax control types. This project, in its turn, is dedicated to the improvement of operative tax control. Today in the situation of limited resources the SRS is able to carry out an audit of a legal person once in 13-15 years, and according to the law additional tax payments can be assessed only for the last 3 years, so it is necessary to develop and improve the operative tax control types.

The accession of Latvia to the EU requires the cancellation of the regulations for the internal border crossing and control, being in force today, especially about the VAT and excise tax problems. Consequently we have to strengthen particularly the indirect tax control, developing always new and progressive methods and procedures to improve the tax control.
6. PHARE 2000 “Development of integrated Latvian border management and infrastructure” – 3.16MEUR.

As a result of this project border control and guarding process in line with EU standards will be established and a strategy to co-ordinate border services (customs, police, border guards, navy, immigration police and sanitary border inspection) will be elaborated. Within the Twinning component of the project functions and activities of all institutions involved in border control and guarding will be defined by development and practical implementation of integrated border management strategy which will be related to road crossing points, railroad crossing points and seaports, existing border control standards will be harmonised and new ones adopted, co-operation mechanisms will be improved, common border control action plan implemented, unified planning of necessary resources for all institutions involved in border control and guarding and development of needs assessment plan, training of top-level managers and operational staff. The result of the project will be professionally carried out border, veterinary and phytosanitary control, border control facilities in “Krivanda” and “Opuli” and equipped veterinary and phytosanitary control post “Terehova” built, reduced time of border crossing procedures, reduced illegal border crossing cases, reduced smuggled goods and drugs and reduced organised crime cases.

7. The bilateral co-operation program of Denmark and Latvia for the period 1997-2000, 1.89 MDKK

During the years 1997-2000 under the aforementioned co-operation program training seminars has been organised by specialists of Denmark’s customs and tax administration, study visits have been organised and reports and suggestions were submitted on the following main issues:
- The development of a tax manual.
- Seminar on the EU Customs Code.
- Audit Customs Payment System.
- Seminar on the SRS communications strategy.
- Introduction of the Denmark’s performance measuring system (REKS) and its application on a regional level.
- General information about the EU related systems.

Now the negotiations about the possible continuation of the co-operation program for the years 2001-2002 are carried out.

8. Under preparation: PHARE 2001 “Inspection infrastructure at seaports and railroad border crossings” – 9,505 MEUR.

The aim of this project is to ensure proper functioning of customs, veterinary and phytosanitary controls at future EU external borders on railroad and seaport border crossing points. Border control points envisaged for upgrading according to the EU requirements will be selected taking into the account the flow of consignments subject to control during the previous years, as well as economic, commercial, geographical and political aspects. It will provide stable basis for further improvement of the quality of control, decrease border-crossing time and improve working conditions, as well provide stable environment for effective application of customs control equipment in the framework of Phare 2001 project “Institutional strengthening of Tax and Customs Administrations”.

3.3. Results

1. Promotion of administrative and operative capacity of collection and control
   - Accuracy of planning and estimation of tax revenues collection is increasing
   - Improved substantiality of resource estimation and planning for tax administration
   - A rational resources distribution has been achieved on the basis of risk assessment and analysis
   - The collection and control strategy is improved in conformity with the requirements of the EU for the operation in a common market situation.
   - Collection and control performance evaluation criteria have been developed on strategic and operational level.
   - The speed of tax legislation offence detection is increased due to regular credibility checks of tax returns and statements
Increased Tax control efficiency due to the development of information systems and the support of information technologies.

Intelligence unit established

Risk strategy for detection and prognosis of illegal transactions improved

System of expertise of excise goods established

Increased efficiency of control of excise goods (particularly – oil products) is achieved as a result of better system and customs control equipment

Improved quality of strategic support, finance planning, collection and control personnel performance influenced by training and exchange of experience with high quality experts.

2. Developed IT system of tax and customs administration corresponding to the EU requirements

- Legislation adopted defining powers, rights, functions of the administration, mutual co-operation and exchange of information
- Common standards and formats have been developed for an electronic data exchange with foreign tax administrations
- Rules for access to information established
- The newly developed integrated computer systems ensure operational and precise supply and exchange of information between tax and customs administrations in the country and between Latvia and EU member states.
- Data warehouse to integrate information established and functioning
- Improved information exchange between tax and customs administrations
- Staff members responsible for exchange of information are trained to continue working in accordance with the new functions
- Specific computer systems to integrate with EU system established
- Central liaison office set up

3. Developed uniform taxpayers support and education system

- A common system for the taxpayers and customs clients support and education has been developed.
- Information booklets for taxpayers on taxation issues and taxpayers rights published
- Public is informed about changes in tax and customs administrations as regards to the EU integration
- Electronic tax declaration document implemented
- System ensuring uniform application of tax normative acts has been established
- Centralised telephone line for information of taxpayers established
- The professional level of staff members has increased in the area of taxpayers support and education
- The number and quality of taxpayers and customs clients services has increased
- Public trust to tax and customs administration is increasing and voluntary compliance is growing

3.4. Activities/Inputs

Component 1 – Promotion of capacity

- System’s development for trend analysis of legislation and trade, the assessment of their impact on revenue collection and administration resources;
- Staff training to perform trend analysis of legislation and trade, and to use risk analysis for resources distribution;
- Improvement of collection and control strategies in conformity with the EU requirements, specifying the performance indicators;
- Staff training in the calculation technique of collection and control performance indicators;
- Improvement of indirect tax control mechanism by development methodology of tax returns and statements credibility checks;
- Improvement of information system to ensure tax control;
• Development of Intelligence Unit and training of personnel;
• Supply of computers for Intelligence Units of central office and regional offices;
• Improvement of strategy for reduction of fraud and tax evasion;
• Supply of customs offices with special technical equipment (equipment for taking of samples, portable density measurement equipment, aerometers, portable containers for transportation of samples, portable X-ray equipment, "Allen" detector, endoscopes and others);
• Supply of customs laboratories with analytical equipment (infrared spectrometer microscope with software and data basis, tintometer for specification of the colour of oil products, equipment for measurement of partial pressure in oil products, mobile customs laboratory and others);
• Training of officials to use of special technical equipment.

Inputs
• Reports and proposals of short-term experts:
  • to develop a system for analysing the trends of new developments in legislation and business activities and to use it for planning of resources (3 man-months)
  • to develop collection and control strategy and performance indicators (3 man-months)
  • to develop methodology of credibility checks of tax returns and statements and to assess the information system (1.5 man-months);
  • to develop system for tax control (1.5 man-months);
  • to establish Intelligence Unit (1.0 man-months);
  • to develop system of excise goods expertise and risk strategy for detection and prognosis of illegal transactions (2.0 man-months);

Training seminars on:
• development and operation of system for analysing the trends of new developments in legislation and business activities (10 days, 5 officials, 2 experts)
• use risk analysis for planning of resources distribution (5 days, 5 officials, 2 experts)
• calculation of collection and control performance indicators in conformity to EU requirements (5 days, 10 officials, 2 experts)
• methodology for tax statements and returns credibility check (5 days, 20 officials, 2 experts)
• Intelligence functions for Intelligence Unit personnel of central office and regional offices (5 days, 10 officials, 1 expert)
• use of special technical equipment (3 seminars each for 5 days, 300 officials)

Study visits on:
• Obtaining experience of tax statements and returns credibility checks (5 days, 4 officials)
• Improvement of excise control measures (5 days, 4 officials, 2 experts)

• Supply of 5 computers for Intelligence Units of central office and 14 computers, 7 network printers for Intelligence Units of 5 regional offices, Large Taxpayers Department and Riga Customs.
• Supply of specific technical equipment for customs offices (equipment for taking of samples, portable density measurement equipment, aero meters, portable containers for transportation of samples, portable X-ray equipment, "Allen" detector, endoscopes and others).
• Supply of analytical equipment for customs laboratories (infrared spectrometer microscope with software and data basis, tintometer for specification of the colour of oil products, equipment for measurement of partial pressure in oil products and others)

Component 2 – IT system
• Development of draft proposals of amendments to legislation on use and powers of mutual co-operation and exchange of information;
• Development of policy for accession to information, data safety and protection of personal data in accordance with EU standards in the field of Tax and Customs administration;
• Establishment of a structural unit responsible for accession to information, data safety and protection of personal data;
• Establishment of data warehouse for integration of information of tax and customs administration;
• Training of personnel in use and analysis of data warehouse information;
• Development of specific computerised systems for the integration in EU;
• Development of a common standard and format for an electronic data exchange with foreign tax administrations;
• Development and implementation of software of INTRASTAT, VIES, SEED, AFIS, FISCAL SCENT etc. systems;
• Training of personnel in use of EU specific computerised systems;
• Establishment of CLO and training of personnel of CLO;
• Supply of computers and software for CLO.

Inputs
• Reports and proposals of short-term experts:
  • To develop draft proposals of amendments to legislation on use and powers of mutual co-operation and exchange of information (1.5 man-months);
  • To develop policy for accession to information, data safety and protection of personal data in accordance with EU standards (1.5 man-months);
  • To establish a structural unit responsible for accession to information, data safety and protection of personal data (0.5 man-months);
  • To establish data warehouse and data analysis (1.5 man-months);
  • To develop EU specific computerised systems (4.0 man-months);
  • To establish CLO (1.5 man-months).
• Training seminars on:
  • Use and analysis of data warehouse information (3 days, 15 officials, 2 experts);
  • Use of EU specific computerised systems (5 days, 25 officials, 5 experts);
  • Functions of CLO (5 days, 6 officials, 2 experts);

Study visits on:
• Establishment of EU specific computerised systems (5 days, 5 officials, 5 experts);
• Functions of CLO (4 days, 3 officials, 2 experts)
• Development and implementation of EU specific computerised systems software
• Supply of 5 computers, 1 network printer and standard software licenses for CLO.
• Development and implementation of software for CLO.

Component 3 – Twinning. System of taxpayers support
• Common policy development of taxpayers and customs clients support and education
• Staff training to provide support to taxpayers
• Development and publication of booklets on various issues of taxation
• Development and publication of booklets on changes in tax and customs administration as regards with the EU integration
• Development of system for exchange of information with taxpayers electronically in accordance with the EU requirements
• Development of system ensuring common application of taxation legislation and training of personnel in use of system
• Establishment of centralised telephone line for taxpayers’ information and training of officials

Inputs (Twinning)
• A Twinning expert (Pre-accession adviser – PAA) – 12 man-months
• Not less than 5-7 years experience in a tax administration of a EU member state;
• Higher education – at least the master’s degree in public relations/communication science;
• Experience in management of similar projects;
Experience and appropriate knowledge:
• how to write strategic documents and carry out training on methodology of strategy development
• how to develop taxpayers and customs clients support and education policy and how to organise these activities;
• how to identify target groups of taxpayers and customs clients for publishing information materials
• how to develop a computer system for a common application of legal tax provisions
• Excellent knowledge of English (both oral and written).
• Good communication skills.

Tasks of pre-accession advisor:
• to provide overall management for the implementation of the 3rd component;
• to be responsible of planning, organising and co-ordination of short-term experts’ pool, training seminars, study visits and publication of information booklets within the 3rd component;
• to submit reports and proposals on:
  • development of common policy for taxpayers and customs clients support and education;
  • development and publication of booklets on various issues of taxation, as well as on changes in tax and customs administration as regards the EU integration;
  • development of IT system ensuring common application of tax legislation.
• to submit reports on regular basis to the Project contact person for Twinning within SRS on progress in implementation of the 3rd component.

Reports and proposals of short-term experts:
• To develop system for exchange of information with taxpayers electronically (0,5 man-months
• To establish centralised telephone line for information of taxpayers (1,5 man-months 2 experts).
• Training seminars on:
  • Function of taxpayers support and education (2 seminars each for 10 days, 20 officials, 2 experts);
  • System’s use for ensuring common application of taxation legislation (5 days, 5 officials, 2 experts);
• Servicing of centralised telephone line (10 days; 15 officials, 2 experts);
• Study visits on:
  • Exchange of information with taxpayers electronically (6 days, 4 officials, 2 experts);
  • Servicing of centralised telephone line (3 days, 5 officials, 1 expert).
• Technical assistance for publication of information booklets

4. Institutional Framework

The project will be implemented within the SRS. A considerable portion of project funds will be earmarked for development and implementation of IT systems, therefore a direct contact will be maintained with IT department and Financial Planning and Control department.

The objectives raised within the project are related with the subprojects of the Modernisation project of SRS. Therefore collaboration with Project Implementation Unit department will be organised.
To secure realisation of the Programme responsible officials are designated for each component: Overall project responsible official - Deputy Director-General of SRS Mr. Andris Anspoks.

The State Revenue Service comprise headquarter Division, Latgales and Zemgales Regional offices, Riga Customs and 27 local offices.
In order to ensure successful implementation of the project, and to prevent the possible overlapping with other SRS projects the co-ordination of project implementation will be carried out within the framework of SRS Modernisation. SRS Modernisation project including the following supervisory and management structures:

1. **Change Management co-ordination Committee** headed by the Minister of Finance of the Republic of Latvia and having the responsible persons from SRS and the MoF as members. This Committee supervises the project implementation, and it is also responsible for management of organisational and management reforms. Besides it carries out co-ordination between various involved public sector institutions in Latvia and solves problems requiring agreement between these institutions.

2. **Project Implementation Unit Department** carries out everyday co-ordination and supervision of modernisation process.

3. **Project Management Committees** carry out work on practical development, management and implementation of projects by involving all the necessary SRS structural divisions.

5. **Detailed Budget**

<table>
<thead>
<tr>
<th></th>
<th>Phare Support</th>
<th>National Co-financing</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Investment Support</td>
<td>Institution Building</td>
<td>=I+IB</td>
</tr>
<tr>
<td>Service contract</td>
<td>1 060 000</td>
<td>1 060 000</td>
<td>119 200</td>
</tr>
<tr>
<td>Supply contract</td>
<td>540 000</td>
<td>540 000</td>
<td>180 200</td>
</tr>
<tr>
<td>Twinning covenant</td>
<td>400 000</td>
<td>400 000</td>
<td>44 900</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>540 000</td>
<td>1 460 000</td>
<td>2 000 000</td>
</tr>
</tbody>
</table>

**Structure of State Revenue Service**

```
Director General

First Deputy Director General - Director of National Customs Board

National Customs Board
- Law division
- Data analysis and processing division
- Tariffs division
- Procedures division
- Resources division
- Control division

First Deputy Director General - Director of National Tax Board

National Tax Board
- Taxes and Taxpayers accounting division
- Tax audit division
- Internal control division
- Tax accounting division

Tax administration organization division

- Direct taxes methodology and coordination division
- Indirect taxes methodology division
- Other state revenue methodology division

Deputy Director General - A.Anspoks

IT Department
- Project Implementation Department
  - Filing Office
  - International Relations Division
  - Training Organisation Div.
  - Procurement Department

First Deputy Director General - Director of National Tax Board

Latgale regional office
Zemgale regional office
Riga Customs
27 territorial offices

DG Office
- Financial Police Department
- Internal Audit Div.
- Corruption Prevention Control Division
- Personnel and Labor Safety Division
- Legal Department
- Appeals Division
- Excise Goods Department
- Financial Planning and Control Department
- Large Taxpayers Department

Cooperation within the project
```

**Structure of State Revenue Service**

```
Director General

First Deputy Director General - Director of National Customs Board

National Customs Board
- Law division
- Data analysis and processing division
- Tariffs division
- Procedures division
- Resources division
- Control division

First Deputy Director General - Director of National Tax Board

National Tax Board
- Taxes and Taxpayers accounting division
- Tax audit division
- Internal control division
- Tax accounting division

Tax administration organization division

- Direct taxes methodology and coordination division
- Indirect taxes methodology division
- Other state revenue methodology division

Deputy Director General - A.Anspoks

IT Department
- Project Implementation Department
  - Filing Office
  - International Relations Division
  - Training Organisation Div.
  - Procurement Department

First Deputy Director General - Director of National Tax Board

Latgale regional office
Zemgale regional office
Riga Customs
27 territorial offices

DG Office
- Financial Police Department
- Internal Audit Div.
- Corruption Prevention Control Division
- Personnel and Labor Safety Division
- Legal Department
- Appeals Division
- Excise Goods Department
- Financial Planning and Control Department
- Large Taxpayers Department

Cooperation within the project
```
The Twinning Covenant will have a total value of 400,000 EUR. The national co-financing will cover the cost of the counterpart arising from the implementation of the project.

6. Implementation Arrangements

6.1 Implementing Agency

Central Financing and Contracting Unit, PAO Ms. Valentina Andrejeva, State Secretary of Ministry of Finance.
Smilsu 1, Riga, Latvia, LV-1050; phone +371 7226672, fax +371 7095503.

The Technical Implementation of the project will be the responsibility of the SPO Andrejs Sonciks Director General of SRS.
Smilsu 1, Riga, Latvia, LV-1050; phone +371 7028700, fax +371 7028692.

6.2 Twinning

One Twinning Covenant shall provide the implementation of the 3rd component "Developed uniform taxpayers support and education system".

The contact person for the Twinning covenant within the project will be Mr. Andris Anspoks SRS Deputy Director General
Smilsu 1, Riga, Latvia, LV-1050; phone +371 7028600, fax +371 7028696
The office of PAA will be located in premises of State Revenue Service.

6.3 Non-standard aspects

6.4 Contracts

- Service contract – 1.06 M€R;
- Supply contract - 0.72 M€R;
- Twinning covenant - 0.40;

7. Implementation Schedule

<table>
<thead>
<tr>
<th></th>
<th>Service Contract</th>
<th>Supply Contract</th>
<th>Twinning Covenant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Start of tendering</td>
<td>November 2001</td>
<td>May 2002</td>
<td>January 2002</td>
</tr>
<tr>
<td>Start of project activity</td>
<td>March 2002</td>
<td>August 2002</td>
<td>May 2002</td>
</tr>
<tr>
<td>Project Completion</td>
<td>December 2003</td>
<td>December 2003</td>
<td>August 2003</td>
</tr>
</tbody>
</table>

8. Equal Opportunity

When recruiting, promoting and rotating their employees, Latvian public institutions (including *inter alia* SRS) take into account professional qualification, level of competence, compliance with the Law on State Civil Service (when applicable), correspondence to the job description, performance and like factors, not their age, sex or nationality. There will be equal opportunity for both men and women.

9. Conditionality and sequencing

**Conditionality**
- Full commitment from the beneficiary to transparently co-operate with external project experts, including *inter alia* access to all sources of information (including classified, under condition of proper arrangement of confidentiality).
- Internal political will to undergo administrative and structural change.
- Commitment from the recipient to follow/implement the delivered advice.
- Government defines continuation of Public Administration Reform as constant priority.
- Adequate staffing of all the institutions involved.
- Before signing the contracts for equipment, relevant legal bases and clear instructions by the central level on enforcing the legislation must be in place.
- Close co-ordination is to be ensured in order to avoid overlap with existing Phare and other assistance (WB).

**ANNEXES TO PROJECT FICHE**

1. Logical framework matrix in standard format
2. Detailed implementation chart
3. Contracting and disbursement schedule by quarter for full duration of programme (including disbursement period)
4. Location of software, hardware and special technical and analytical equipment developed and supplied to State Revenue Service
5. Reference to relevant Government Strategic plans and studies (may include Institution Development Plan, Business plans, Sector studies etc) (optional)
<table>
<thead>
<tr>
<th>Institutional Strengthening of Tax and Customs Administrations</th>
<th>Program name and number</th>
<th>LE01.02.01</th>
<th>Contracting period expires</th>
<th>Disbursement period expires</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total budget : 2,34 M. EURO</td>
<td>Phare budget : 2 M. EURO</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Overall Objective</th>
<th>Indicators of Achievement</th>
<th>Sources of Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>To organise and administrate work of tax and customs administration so as to increase the performance efficiency and to ensure a sustainable growth of revenue collection into budget</td>
<td>Growth of total amount of budget revenues</td>
<td>State Treasury</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Project Purpose</th>
<th>Indicators of Achievement</th>
<th>Sources of Information</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>To achieve the administrative and operational capacity of tax and customs administration in order to increase voluntary compliance and reduce the tax and customs evasion</td>
<td>EU requirements in tax and customs administration have been achieved</td>
<td>Commission regular reports</td>
<td>Sufficient allocation of resources to implement the EU requirements</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Results</th>
<th>Indicators of Achievement</th>
<th>Sources of Information</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accuracy of planning and estimation of tax revenues collection is increasing</td>
<td>Reduction of ratio between administrative costs and amount of collected revenue</td>
<td>Ministry of Finance</td>
<td>Adoption of amendments into legislation</td>
</tr>
<tr>
<td>Improved substantiality of resource estimation and planning for tax administration</td>
<td>The accuracy of the tax revenues projections is increasing compared with the actually collected revenues.</td>
<td>SRS Financial Planning and Control Department</td>
<td>Unexpected changes in trade flow of excise goods</td>
</tr>
<tr>
<td>A rational resources distribution has been achieved on the basis of risk assessment and analysis</td>
<td>Reduction of ratio between number of staff in tax and customs administration and the total number of taxpayers</td>
<td>SRS National Tax Board</td>
<td>Inadequacies in the EU member states in the area of indirect tax control</td>
</tr>
<tr>
<td>The collection and control strategy is improved in conformity with the requirements of the EU for the operation in a common market situation. Collection and control performance evaluation criteria have been developed on strategic and operational level.</td>
<td>Number of effective tax audits is increasing</td>
<td>European Commission regular report</td>
<td>Unpredictable changes in the development of state economy</td>
</tr>
<tr>
<td>The speed of tax legislation offence detection is increased due to regular credibility checks of tax returns and statements</td>
<td>The proportion of the increase of really collected additionally assessed amounts to the additionally assessed amounts during the audits</td>
<td>SRS IT Department</td>
<td></td>
</tr>
<tr>
<td>Increased Tax control efficiency due to the development of information systems and the support of information technologies</td>
<td>The amount of information available on taxpayers is increasing</td>
<td>SRS National Tax Board and National Customs Board</td>
<td></td>
</tr>
<tr>
<td>Intelligence unit established</td>
<td>Amount of excise tax collection is growing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Risk strategy for detection and prognosis of illegal transactions improved</td>
<td>Number of detection of illegal transactions is increasing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>System of expertise of excise goods established</td>
<td>Faster physical examination of goods for customs purposes and therefore decrease of time spent for customs procedures</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increased efficiency of control of excise goods (particularly – oil products) is achieved as a result of better system and customs control equipment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Improved quality of strategic support, finance planning, collection and control personnel performance, caused by training and exchange of experience with high quality experts.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Legislation adopted defining powers, rights, functions of the administration, mutual co-operation and exchange of information</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common standards and formats have been developed for an electronic data exchange with foreign tax administrations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rules for access to information established</td>
<td>EU requirements in the area of information exchange have been met</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The newly developed integrated computer systems ensure operational and precise supply and exchange of information between tax and customs administrations in the country and between Latvia and EU member states.</td>
<td>Operational performance improved as a result of increase of speed of information exchange</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Data warehouse to integrate information established and functioning</td>
<td>Internal rules of SRS regulating storage and use of information have been developed</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Improved information exchange between tax and customs administrations</td>
<td>The VIES data integration in the national control system is ensured.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Staff members responsible for exchange of information are trained to continue working in accordance with the new functions</td>
<td>In the result of an active administrative co-operation the number of disclosed fraud cases in VAT is increasing</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Sources of Information</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Activities</td>
<td>Means</td>
<td>Assumptions</td>
</tr>
<tr>
<td>--------------------------------------------------------------------------</td>
<td>-----------------------------------------------------------------------</td>
<td>-----------------------------------------------------------------------------</td>
</tr>
<tr>
<td><strong>Component 1</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>System’s development for trend analysis of legislation and trade, the</td>
<td>Reports and proposals short term of experts (12 man-months)</td>
<td>The development of respective structural units to perform the new functions</td>
</tr>
<tr>
<td>assessment of their impact on revenue collection and administration</td>
<td>8 training seminars</td>
<td>The personnel turnover is reduced</td>
</tr>
<tr>
<td>resources</td>
<td>2 study visits</td>
<td>Staff comprehension about the necessity of changes</td>
</tr>
<tr>
<td>Staff training to perform trend analysis of legislation and trade, and</td>
<td>Supply of 5 computers for Intelligence Unit of central office and</td>
<td>The organisation of a timely information campaign for public and staff about</td>
</tr>
<tr>
<td>to use risk analysis for resources distribution</td>
<td>14 computer and 7 network printers for Intelligence Units of 5</td>
<td>the changes to be expected</td>
</tr>
<tr>
<td>Improvement of collection and control strategies in conformity with the</td>
<td>regional offices, Large Taxpayers Department and Riga Customs.</td>
<td></td>
</tr>
<tr>
<td>EU requirements, specifying the performance indicators</td>
<td>Supply of specific technical equipment for customs offices</td>
<td></td>
</tr>
<tr>
<td>Staff training in the calculation technique of collection and control</td>
<td>Supply of analytical equipment for customs laboratories</td>
<td></td>
</tr>
<tr>
<td>performance indicators</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Improvement of indirect tax control mechanism by development methodology</td>
<td></td>
<td></td>
</tr>
<tr>
<td>of tax returns and statements credibility checks</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Development of Intelligence Unit and training of personnel</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supply of computers for Intelligence Units of central office and regional</td>
<td></td>
<td></td>
</tr>
<tr>
<td>offices</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Improvement of strategy for reduction of fraud and tax evasion</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supply of customs offices with special technical equipment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supply of customs laboratories with analytical equipment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Training of officials to use of special technical equipment</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Component 2</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Development of draft proposals of amendments to legislation on use and</td>
<td>Reports and proposals short term of experts (10.5 man-months)</td>
<td>Approval of amendments to legislation in a timely</td>
</tr>
<tr>
<td>powers of mutual co-operation and exchange of information</td>
<td>3 training seminars</td>
<td>manner</td>
</tr>
<tr>
<td>Development of policy for accession to information, data safety and</td>
<td>2 study visits</td>
<td></td>
</tr>
<tr>
<td>protection of personal data in accordance with EU standards in the</td>
<td>Development and implementation of software of EU specific</td>
<td></td>
</tr>
<tr>
<td>field of Tax and Customs administration</td>
<td>computerised systems</td>
<td></td>
</tr>
<tr>
<td>Establishment of a structural unit responsible for accession to</td>
<td>Supply of standard software licenses for CLO</td>
<td></td>
</tr>
<tr>
<td>information, data safety and protection of personal data</td>
<td>Development and implementation of software for CLO</td>
<td></td>
</tr>
<tr>
<td>Establishment of data warehouse for integration of information of tax</td>
<td>Supply of 5 computers 1 network printer, 1 server for CLO</td>
<td></td>
</tr>
<tr>
<td>and customs administration</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Training of personnel in use and analysis of data warehouse information</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Development of specific computerised systems for the integration in EU</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Development of a common standard and format for an electronic data</td>
<td></td>
<td></td>
</tr>
<tr>
<td>exchange with foreign tax administrations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Development and implementation of software of INTRASTAT, VIES, SEED,</td>
<td></td>
<td></td>
</tr>
<tr>
<td>AFIS, FISCAL, SCENT etc. systems</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Training of personnel in use of EU specific computerised systems</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Establishment of CLO and training of personnel of CLO</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supply of computers and software for CLO</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Component 3 – Twinning</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common policy development of taxpayers and customs clients support and</td>
<td>Services of long-term experts ~12 man-months (Pre-accession adviser)</td>
<td></td>
</tr>
<tr>
<td>education;</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Staff training to provide support to taxpayers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Development and publication of booklets on various issues of taxation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Development and publication of booklets on changes in tax and customs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>administration as regards the EU integration</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Development of system for exchange of information with taxpayers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>electronically in accordance with the EU requirements</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Development of system ensuring common application of tax legislation and</td>
<td></td>
<td></td>
</tr>
<tr>
<td>training of personnel in use of system</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Establishment of centralised telephone line for taxpayers’ information</td>
<td></td>
<td></td>
</tr>
<tr>
<td>and training of officials</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
ANNEX 3

CUMULATIVE CONTRACTING and DISBURSEMENT SCHEDULE (€ thous.)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Service Contract</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contracted</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1 060</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disbursed</td>
<td>360</td>
<td>460</td>
<td>560</td>
<td>660</td>
<td>760</td>
<td>860</td>
<td>960</td>
<td>1 060</td>
<td></td>
</tr>
<tr>
<td><strong>Supply Contract</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contracted</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>540</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disbursed</td>
<td>320</td>
<td>480</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Twinning Covenant</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>400</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contracted</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disbursed</td>
<td>120</td>
<td>170</td>
<td>220</td>
<td>270</td>
<td>320</td>
<td>400</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
ANNEX 4

Location of software, hardware and special technical and analytical equipment developed and supplied to State Revenue Service

<table>
<thead>
<tr>
<th>Software, hardware and specific technical and analytical equipment</th>
<th>SRS unit structural unit</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Software</strong></td>
<td></td>
</tr>
<tr>
<td>Software of EU specific computerised systems</td>
<td>Central Office, IT Department</td>
</tr>
<tr>
<td>Software for CLO</td>
<td>Central Office, IT Department</td>
</tr>
<tr>
<td><strong>Computers, network printers, server, Standard software licenses</strong></td>
<td></td>
</tr>
<tr>
<td>For development of Intelligence Units</td>
<td></td>
</tr>
<tr>
<td>5 computers</td>
<td>National Tax Board, Intelligence Unit</td>
</tr>
<tr>
<td>10 computers, 5 network printers</td>
<td><strong>5 regions</strong> (2 computers and 1 network printer for each region)</td>
</tr>
<tr>
<td>2 computers, 1 network printer</td>
<td>Large Taxpayer’s Department</td>
</tr>
<tr>
<td>2 computers, 1 network printer</td>
<td>Riga Customs</td>
</tr>
<tr>
<td><strong>For establishment of CLO</strong></td>
<td></td>
</tr>
<tr>
<td>5 computers, 1 network printer, 1 server</td>
<td>Central Office, CLO</td>
</tr>
<tr>
<td><strong>Standard software licenses</strong></td>
<td>Central Office, CLO</td>
</tr>
<tr>
<td><strong>Special technical equipment for different goods and products, particularly oil products control and analytical equipment for customs laboratories</strong></td>
<td></td>
</tr>
<tr>
<td>Special technical equipment for different goods and products, particularly oil products control</td>
<td>National Customs Board, Customs Laboratory</td>
</tr>
<tr>
<td><strong>Analytical equipment for customs laboratories</strong></td>
<td>National Customs Board, Customs Laboratory</td>
</tr>
</tbody>
</table>
ANNEX 5

Reference to relevant Government and SRS Strategic plans and studies

- Declaration of planned actions of Cabinet of Ministers.
- National programme for Integration into the European Union.
- State Revenue Service of Republic of Latvia Strategic Plan 1999-2003 (fiscal blueprints” Business Change Management Plan”)
- Strategic Plan of State Revenue Service Information System
- State Revenue Service Customs Business Strategy (short version).
- Code of Ethics of Latvian State Revenue Service Employees.
- State Revenue Service Training Strategy
ANNEX 6

State Revenue Service of Republic of Latvia
Strategic plan 1999-2003