

Study of tax authority's interaction with taxpayer

1/18/20



PwC partner and head of tax department
Ilze Rauza

A survey PwC conducted in late 2019 finds that 77% of Latvian company representatives have asked the State Revenue Service ("SRS") for assistance or comment, and about a half of their enquiries were concerned with interpreting tax laws.

The main purpose of the survey was to identify and analyse information about how the tax authorities interact with and provide assistance to taxpayers, as well as about tax audits, controversies and dispute resolution. The survey was conducted in 17 countries of Central and Eastern Europe, with 872 respondents taking part. The Latvian survey covered 128 respondents from a variety of industries.

The Latvian respondents' perspective

In Latvia, 78% of respondents assessed the quality of assistance and recommendations provided by the SRS as good or satisfactory, while others accused the SRS of using formal language in communication with customers and of citing provisions of law without offering a comprehensive reply to the question asked. And 22% of respondents said the expertise and skills of SRS officers also caused problems.

Most respondents said their taxes had never been audited (40%) or an audit had taken place before 2014 (35%). This implies that those companies (based on SRS methodology) are considered low-risk taxpayers, hence remote tax monitoring. 75% of audited respondents did not appeal against the SRS decision because the breach was immaterial (34%) or because they did not expect their appeal to produce results (15%).

The survey shows that the SRS still has room for improvement in applying their "Advise First!" principle because 79% of audited companies said the SRS had not contacted them before starting a tax audit to discuss any risks detected. In February 2020, however, the SRS added five new indicators to their Taxpayers Rating System to provide information about risks. These improvements will ensure that taxpayers are advised in advance of any risks detected. However, companies should also consider the extent to which they are willing to engage in this process because cooperation with the supervisory agency is not possible without their voluntary engagement.

Asked about the main issues detected by tax audits, the company representatives mentioned VAT issues in 40% of cases and corporate income tax issues in 34% of cases.

The full survey can be found [here](#).