

Parliament legislates to reorganise tax authority

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Consultant, Tax, PwC Latvia
Aleksandrs Afanasjevs



Director, Tax, and Head of Pan-Baltic
People and Organisation Practice, PwC
Latvia
Irena Arbidane



Senior Consultant, Tax, PwC Latvia
Madara Hmelevska



Director, Tax, PwC Latvia
Vita Sakne

On 31 October 2024 Parliament passed the State Revenue Service (SRS) Act and the Tax and Customs Police Act (the 'Police Act') in their final reading to separate the Internal Security Board and the Tax and Customs Police Board from the SRS. These legislative changes will carry out the Ministry of Finance's (MOF) intention of reorganising the SRS to carve out investigatory and operational functions. The new legal framework will result in the SRS being only tasked with the provision of advice, support and services in the field of tax and customs.

The current legal framework

The SRS workings are currently governed by enactments such as the Taxes and Duties Act, the SRS Act, and the Customs Act. Under this legislation, the SRS is mainly required to ensure payments of taxes and duties are recorded and collected into the Latvian and the EU budget. Beyond this competence the SRS is mandated to prevent and detect tax and customs crime, including SRS employee activities. The SRS keeps a register of public officials, as well as accepting and checking their tax returns. The SRS is the institution of supervision and control for certain entities governed by the Anti Money Laundering and Counter Terrorism and Proliferation Financing Act.

We have already written that in late 2023 the MOF put together a report proposing various measures to improve SRS operations. The plan involves organisational changes, including removal of law enforcement functions from the SRS structure. These steps are designed to strengthen the public image of the SRS as a customer-oriented institution.

Having considered the report, the Cabinet of Ministers authorised the MOF to draft bills for reforming the SRS by 1 June. As part of the reform, the MOF drafted amendments to the Taxes and Duties Act to incorporate the SRS Act's clauses dealing with general tax administration. This decision is part of the MOF plan to improve the SRS Act by retaining only the most important clauses relating to SRS operations, i.e. the rights and obligations of SRS employees, as well as rules for registering taxpayers.

The amendments in their final reading were passed by Parliament on 31 October 2024 and will take effect from 1 January 2026.

It's worth noting that the MOF intended to amend the SRS Act but that was found to entail amending its entire text, which the MOF thought would make it difficult to understand. This is why they decided to draft a new SRS Act along with the Police Act to govern the functions of the Tax and Customs Police Board as a new government agency.

The SRS Act

Passing the new SRS Act means the Internal Security Board's investigatory and operational functions will be moved from the SRS organisational structure to KNAB, the Latvian anti-corruption authority. The Tax and Customs Police's functions will also be segregated by setting up a new agency of direct administration under the MOF. These moves will restrict the SRS competence to key tax administration functions.

Unlike the old SRS Act, the new one documents the commitment to securing broader collaboration with the public. For example, the SRS will have the power to engage in its operations members of the public, including public organisations, competent persons, and foreign experts. This collaboration aims to ensure tax laws are applied fairly and taxpayers' rights are protected effectively. The Act will require the SRS to inform taxpayers about legal solutions to protect their rights and about other activities to encourage voluntary tax compliance.

To drive the process of digitalisation in the SRS, the Act gives its Director General the power to set up the Digital Development Steering Committee. This will act as an institution supervising the digital transformation in the SRS and looking for ways to implement new technical solutions. The committee may include independent Latvian and foreign experts for a period of up to three years.

The SRS is also responsible for managing various national information systems that are used to carry out tasks associated with collecting taxes, monitoring excise goods, customs policy, and other areas. The governance function is essential for data protection because the systems administer and process information on individuals and entities. This involves processing data on income, wealth, administrative offences, political beliefs, religious affiliations, trade union membership, health, border crossing, etc.

The Police Act

The new Police Act defines the Tax and Customs Police as an independent agency of direct administration. The Act prescribes its tasks and competences, as well as other matters associated with its operations. Like the SRS, the Tax and Customs Police will be allowed, in its own interests and in protecting public interests, to inform the public about its activities and offences detected.

The Tax and Customs Police will be responsible for managing various national information systems that are used to carry out tasks associated with investigations, operational activities and procedural enforcement in criminal proceedings. The police will use these systems to process personal data for operational purposes, e.g. on business activities, customs procedures completed, services received, trade union membership, health, etc.

Key takeaways

Overall, the changes to the SRS structure indicate a shift towards greater efficiency of tax administration and closer cooperation with the public, allowing the SRS to focus on pursuing tax policy.

The changes strengthen the SRS's need to undertake digital transformation and improve information systems according to international trends in digitalising taxation, which will allow it to achieve the goals of the reorganisation in the long term.

Once passed by Parliament, the new enactments will come into force on 1 January 2026.