

Announcement of the State Administration of Taxation on Matters Concerning Tax Credit Rating

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On February 1, 2018, the State Administration of Taxation (SAT) promulgated the “Announcement of the State Administration of Taxation on Matters concerning Tax Credit Rating” (2018 SAT Announcement No. 8, hereinafter, “the Announcement”). SAT announced the inclusion of three new corporate types in the tax credit rating system, and a change from the four original tax credit grades to five. The Announcement has been in effect since April 1, 2018.

1. Policy Background

In July 2014, SAT promulgated “Administrative Measures for Taxpayers' Credit Rating (Trial)” (2014 SAT Announcement No. 40, hereinafter, “Credit Rating Measures”), in which they manage enterprises by classifying them into four grades (A, B, C and D) according to their credibility in regards to tax payment. The tax credit rating employs an annual evaluation indicator scoring system and a direct credit rating method. The annual evaluation indicator scoring system is based on the point deduction method, with 100 being the highest.

[Fig. 1] Grades specified in the Credit Rating Measures

Score	Grade	Major Incentives/Penalties
90 or higher	A	<ul style="list-style-type: none">✓ Taxpayers graded A can receive a value-added tax (VAT) invoice covering a three month period for a single application✓ If they maintain A status for three consecutive years, they will be able to use preferential support at tax authorities and consult with experts.
70 to 89	B	<ul style="list-style-type: none">✓ B taxpayers are managed normally and receive instructions regarding tax collection policies and tax management rules.✓ According to their credit rating status, they may receive incentives applicable to A taxpayers.
40 to 69	C	<ul style="list-style-type: none">✓ C taxpayers are managed strictly and may be managed as D taxpayers according to their credit rating status.
39 or lower Direct credit rating	D	<ul style="list-style-type: none">✓ Restricted reception of VAT invoices✓ Stricter export tax refund assessment✓ Increased frequency of supervision, management and inspection

Since this credit rating scheme was established, it has been used in various fields including bids and loans, acting as an important element to competition in the Chinese market. However, under the previous rules,

start-ups, and enterprises with no revenue from operations within a fiscal year, enterprises to which the Assessment and Collection Measures for Corporate Income Tax apply were excluded from the tax credit rating and thus unable to obtain ratings. The Announcement includes these corporations as targets for credit rating and promotes the clarification of other relevant contents in order to implement a more complete credit rating system.

2. Policy Contents

The Announcement contains the following contents.

Point 1: Addition of new target enterprises for tax credit rating

- (1) Enterprises which performed their first tax-related matter at tax authorities within the current evaluation year (hereinafter, “start-ups”). The evaluation year is based on the calendar year from January 1 to December 31
- (2) Enterprises with no revenue from operations within an evaluation year
- (3) Enterprises to which the Assessment and Collection Measures for Corporate Income Tax apply

Point 2: Clarification of the tax credit rating period for the above three types of enterprises

- (1) If a start-up has performed its first tax-related matter before April 1, 2018, tax authorities shall conduct tax credit rating for it by April 30, 2018.
- (2) If a start-up has performed its first tax-related matter after April 1, 2018, tax authorities shall conduct tax credit rating for it as appropriate.
- (3) For enterprises with no revenue from operations within a rating year and enterprises to which the Assessment and Collection Measures for Corporate Income Tax apply, tax authorities shall conduct credit ratings in the April of the year following the current evaluation year.

Point 3: Addition of Grade M in the tax credit rating

The current tax credit grade system will be changed from four grades (A, B, C and D) to five grades (A, B, M, C and D). Assuming that no actions to lose credibility*, specified in Article 20 of the Credit Rating Measures, are made, if start-ups and enterprises with no revenue from operations within an evaluation year which obtain an annual evaluation indicator score of 70 or higher are classified as M.

*Actions to lose credibility refer to the actions described below.

1	Having committed acts such as evading taxes or penalty taxes, defrauding export tax refunds, or issuing fraudulent VAT invoices, and was judged as criminal regarding tax affairs
2	Despite not having been judged as criminal, committed acts in violation of tax collection laws such as tax evasion worth RMB 100,000 or more and 10% or more of total taxes, evasion of penalty taxes, defrauding export tax refunds, or the issuance of fraudulent VAT invoices, however, has completed the payment of taxes, back taxes and fines
3	Did not pay taxes, back taxes or fines or did not make full payment of such items within a specified period following the conclusion of the tax authorities
4	Used violence or threats to resist or refuse payment of taxes, or hindered tax investigations conducted by tax authorities in accordance with laws
5	Committed acts in violation of rules related to management of VAT invoices or other invoices, leading to other parties or individuals not paying taxes, not paying taxes in full, or being defrauded of tax money.

6	Received preferential tax treatment by submitting fraudulent tax declarations
7	Export tax refund (exemption) qualification was suspended due to the defrauding of national export tax refunds and the suspension period has yet to be terminated.
8	The enterprise has records as an irregular taxpayer, or was registered by or is managed by an irregular taxpayer with direct responsibility.
9	The enterprise was registered or is managed by a D-grade taxpayer with direct responsibility.
10	There were other serious situations causing the loss of credibility which were recognized as such by tax authorities in accordance with laws.

If any of the above applies to a taxpayer, that taxpayer shall be **rated D in the current evaluation year**.

Point 4: Clarification of incentives for grade-M enterprises

The stipulated incentives are as follows.

- (1) Online authentication of VAT invoices is available with no need to be authenticated at tax offices.
- (2) Tax authorities provide them with instruction regarding tax collection policies and tax management rules.

Point 5: Formulation of regulations regarding adjustment of tax credit rating

In the case that an enterprise subject to tax credit rating conducts any of the actions to lose credibility specified in Article 20 of the Credit Rating Measures, tax authorities shall be allowed to adjust the tax credit grade of the enterprise and notify it of such in an appropriate manner.

3. Impact on Enterprises

With the promulgation of the Announcement, the Chinese tax credit rating system has been enhanced by covering start-ups, enterprises with no revenue from operations, and enterprises to which the Assessment and Collection Measures for Corporate Income Tax apply, which were all excluded from the previous rating system. Furthermore, a new credit grade has been added. Start-ups and enterprises with no revenue from operations are now evaluated as M. It is important for enterprises to prevent actions which would cause loss of credibility as well as to enhance their management of tax affairs in order to receive incentives. We will continue to follow up on relevant information and share it as appropriate.

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