

Taxpayer rating system 3/32/22



Senior Consultant, Transfer Pricing, PwC
Latvia
Elvijs Logins



Senior Manager, Transfer Pricing, PwC
Latvia
Andis Vitols

Launched by the State Revenue Service (SRS) in 2018, the taxpayer rating system started out with five dimensions of analysis to determine a taxpayer's individual assessment in the tax authority's eyes. After hearing suggestions from the business community in February 2020, the rating system (dubbed "tax speedometer") was expanded to include another two analysis dimensions with five new business assessment indicators. This article explores the system's objectives, taxpayer groups, key analysis dimensions and assessments, as well as the taxpayer's benefits from being rated.

Objectives

The SRS set three main objectives the taxpayer rating system was to achieve:

- Informing the taxpayer of whether his business indicators are in line with general economic trends
- Motivating the taxpayer to monitor and improve his tax compliance discipline
- Providing a tool the taxpayer can use to inform his suppliers of his reputation, tax compliance discipline, and business indicators' alignment with general economic trends

These objectives imply taxpayers are to receive a significant benefit from the rating system's existence.

Recipients of a rating

Given the system's wide coverage, a rating is available to all entities, regardless of their tax payment regime, that have been on the register of taxpayers for at least six months in the categories below:

- Private limited companies
- Public limited companies
- Farm operations and fishery operations as well as sole traders filing corporate annual accounts

Key aspects

As stated above, the current system includes seven main analysis dimensions, including not only corporate tax compliance but also financial indicator categories, transparency and other dimensions:

1. Evaluation of registration data
2. Tax reporting discipline
3. Late payments administered by the SRS
4. Results of tax administration processes
5. Employment pay indicators
6. Business indicators
7. Tax filing risks

To make the rating as objective as possible, some of the analysis dimensions include more than one indicator to be analysed, varying from 1 to 5. There are a total of 18 indicators across the dimensions, yet this number varies from taxpayer to taxpayer according to their line of business to ensure each taxpayer is assessed as objectively as possible. All of the system's indicators and their descriptions can be found on the SRS website.

The SRS does not rule out the possibility of adding more indicators if necessary.

Analysing all these dimensions and indicators ends up in an overall assessment being issued to the taxpayer, available via the Electronic Declaration System. Here is the scoring:

- Two positive assessments – 5 and 4 points
- One neutral assessment – 3 points (episodic issues)
- Two negative assessments – 2 points and 1 point

Taxpayer ratings are updated monthly, which allows them to take prompt steps to improve their score if need be.

Potential benefits for the taxpayer

The rating system makes it sufficiently easy for the taxpayer to take a look at himself from the SRS's point of view, which may help the taxpayer achieve his short-term and long-term business objectives.

The first benefit is the opportunity to compare the taxpayer's business with other same-sector players in the area, region and country. Such an assessment allows the taxpayer to draw conclusions about his business's efficiency and sustainability, provided the assessment is as objective as possible.

The second benefit is that the taxpayer can inform his potential customers and suppliers of his reputation, compliance discipline and business stability, supported by reliable data from the SRS. This may serve as an important basis for expanding his business.

Finally, we need to remember the importance of a relationship with the SRS that is based on mutual cooperation and honesty. A good rating will serve as the taxpayer's business card in communicating with the SRS, which can definitely save time, a resource so valuable for companies. If the taxpayer runs into difficulties or, for instance, a whole sector experiences a crisis, then state aid will be a key factor directly linked with the SRS. Honesty and a good rating will then certainly benefit the taxpayer.