

# New company rating system applicable from 2024. How to get good grade? 1/27/23



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In June 2023, Parliament passed two extensive amendments to the Taxes and Duties Act effective from 1 January 2024. This was followed by a publication on the website of the State Revenue Service (SRS) detailing the new system's objectives and explaining the meaning of taxpayer grades.

According to the SRS, taxpayers will be rated in a fully automated process based on a very large amount of information.

It's known that the new rating system will have three levels, with publicly available information on the first level, i.e. on the awarded letter grade that describes the company's overall score. The taxpayer will be able to see information about individual indicators underlying the grade and about the criteria used to obtain the taxpayer's individual tax compliance indicators. There are plans to use the following sets of tax compliance indicators:

- An assessment of registration data that analyses negative entries in the SRS information systems suggesting a taxpayer's dishonest behaviour, such as business suspension, VAT deregistration, insolvency declaration, legal protection, negative board characteristics, inclusion in the list of risky persons, or a risky address
- Tax filing indicators, i.e. the number of late filings and adjustments
- Tax compliance indicators, including tax arrears and deadline extensions, timely filing and payment, or debt recovery
- Results of tax and customs administration measures covering SRS reviews and audits, additional tax assessments and administrative penalties
- An assessment of pay comparing the company's pay level with the average pay level in the relevant occupation, industry and country
- An assessment of tax reporting risk, which analyses data from the results of VAT return risk analysis, negative information received via international information exchange, information available from reports on suspicious transactions, signs of the taxpayer's business activity, and other indicators

Five letter grades will be used to rate taxpayers. The letter A is the top grade that means good tax compliance discipline and no significant tax compliance risks. The current Gold members of the Advanced Cooperation Programme will automatically receive the letter grade A. Unlike the Advanced Cooperation Programme, the new rating system will offer the top grade to all companies with good tax compliance indicators regardless of their revenue level and how much they have paid in taxes.

The letter grade B will mean the company has tax compliance risks in at least one area (registration, filing tax returns, completeness of reported data, or payment of reported taxes) in which tax compliance indicators need to be improved. The SRS has yet to draw up accurate criteria for measuring breaches or indicators to qualify for the letter grade B. Yet similarities can be found in the criteria for determining the Gold and Silver levels of the Advanced Cooperation Programme.

In any case, a timely and accurate tax compliance discipline will matter, and achieving these indicators requires processes that ensure tax risk management in the company. If a company wants to qualify for the A level, the new rating system will no longer ask it to develop and file with the SRS a tax risk management policy, yet the company should identify risks that may lead to tax return adjustments or late filings and should develop internal controls to prevent those risks from materialising.

The letter grade C(1) and N(2) will be awarded (1) to companies that have been deregistered for VAT because of breaches or that have had their business suspended by the SRS, and (2) to companies that do not carry on an active business, i.e. they don't create paid jobs and therefore don't pay taxes. The SRS finds that such companies can't be considered good taxpayers.

The letter grade J will be awarded to companies that have been registered in the last six months, so those will be new companies on which the SRS doesn't have sufficient information to give them an overall score.

The original rating will have informational significance to help the companies see which areas need improvement, while business partners could verify each supplier's assessment in the SRS's eyes. Doing business with low-grade suppliers in the future may lead to the SRS scrutinising particular transactions. Accordingly, before a transaction, it's a good idea to check not only the validity of the supplier's VAT registration number but also the rating awarded by the SRS.

It's clear that the SRS is segmenting taxpayers and offers them individualised service according to the company's tax compliance level.

The grade will be reviewed monthly and used as a basis for the SRS's approach to the taxpayer.

While the SRS is still working on particular benefits for taxpayers receiving the top grade, in future, according to the SRS, this should become a tool used in the company's future cooperation with the government. Also, the SRS's new strategy for 2023-2026 prioritises service packages tailored to the taxpayer's behaviour and conscientious performance of obligations, which means new advantages for a better rating.

Companies should work on their tax risk management to achieve a better overall score, improve their reputation and drive tax compliance and tax process efficiencies in the long run. If your company needs help with tax risk management issues, please reach out to Iva Saicane or Alina Ruskova.