

China testing new practice: pledge-style tax certification

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In brief

- » China has introduced a pledge-style tax certification practice, allowing taxpayers to sign a pledge on some key tax data so as to skip the hassle of evidence submission.
- » The new practice applies to six types of tax tasks, effective nationwide from 1 July 2021.

Feedback

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In detail

China's State Administration of Taxation (SAT) has kicked off a brand-new practice called the "pledge-style tax certification" practice – which allows the taxpayers to sign a pledge on the truthfulness of some key tax information to avoid the red tapes of actually submitting the proving documents.

By this new method, taxpayers can submit a pledge letter to the local Chinese tax authority, following an official template to confirm the key data required for a tax benefit and agreeing to bear legal liability for any untrue information. The letter must be in duplicates and stamped with a company's official seal (if the taxpayer is a company), with one copy kept by the tax authority and the other by the taxpayer. It will form the basis for a taxpayer to claim a tax benefit allowed by the tax laws and regulations.

» Application scope

To start with, the new practice, to be implemented nationwide, will apply only to the following six types of tax tasks, according to SAT's announcement (*ref. SAT Announcement [2021] No. 21*). There are also an official template provided for each of them.

No.	Pledge scope	Usage scope
1	Family member's information	This is for a deed tax reduction when purchasing the family's only property or a property for the second time (or for the first time due to government-initiated relocation). With a pledge, one can skip the submission of birth certificates, marriage certificates and residency permits.
2	Family housing survey	Same purpose as mentioned above. With a pledge, one can skip the survey.
3	School property confirmation	This is for a deed tax exemption on the property used as school premises. With a pledge, one can skip the submission of a school operation license issued by the local government.
4	Overseas tax credit claims	This is for overseas income tax credit claims. With a pledge, one can skip the submission of an audit report for its overseas branch's financial statements.
5	Tax sparing credit claims	This is for tax sparing credit claims due to overseas tax benefits enjoyed. With a pledge, one can skip the submission of a proof on the tax benefit enjoyed or an audit report.
6	Transfer of an offshore entity	This is for capital gain tax deferral in the transfer of an offshore entity. With a pledge, one can skip the submission of overseas documents for the share transfer of the offshore entity.

» Pledge as an option

Taxpayers are given the option to choose whether to submit a pledge letter instead, or to submit all the required certification documents in the traditional way. The two practices differs in the following manner:

Pledge letter?	Submission Document
If yes	Only a pledge letter is needed using the official template (with reported information, a pledge, and a confirmation on legal responsibility for errors).
If no	All certifications and documents must be submitted per the tax regulations.

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» Legal responsibility

Taxpayers are held legally liable for the truthfulness of their reported information. The tax authority may conduct due diligence check against each pledge, and take actions if an untrue or a false reporting is established – which include correction orders, penalty imposition or submission of the case to criminal charges.

» Inapplicability

The new practice will not apply in the following situations:

- 1) Cases involving a serious breach to tax laws and integrity; and
- 2) Cases pending corrective actions against previous pledges.

WTS China observation

To taxpayers in general, it should be more than welcome to see the pledge-style tax certification practice being introduced, though so far it is limited to only six types of tax tasks. A simple but solemn pledge can indeed save a taxpayer a lot of efforts and cost in collecting the necessary proving documents, especially those involving overseas authorities like claiming overseas tax credits or transfer of the equity of an offshore entity.

However, one should not take it as a mundane and risk-free practice. A diligent review on the pledge should be enforced since the pledge itself is irrevocable and the taxpayer is held legally liable for it.

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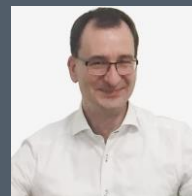
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