

From Credible Taxpayers to Trustworthy Entrepreneurs?

The Spillover Effect of China's Tax Credit Rating System

Feng Chen
Monash University
Monash Business School
feng.chen@monash.edu

Ting-Chiao Huang*
Monash Business School
Monash University
ting.huang@monash.edu

Jing Shi
Monash Business School
Monash University
jing.shi1@monash.edu

Pu Zhao
School of Accounting
Hebei Finance University
zhaopu@hbfu.edu.cn

* Corresponding author.

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Abstract

Exploiting a unique institutional setting in China, where company taxpayers are publicly awarded an A-level rating through a government “tax credit rating system” certification program, we examine how this rating benefits entrepreneurs in the crowdfunding market. Our findings show that entrepreneurs with a credible tax rating are more likely to successfully fund projects, raise more funds, and attract more backers. This suggests that the rating serves as a reputational signal in the crowdfunding market, providing incremental information about creators' tax compliance to potential backers. Further analysis indicates that these improved entrepreneurial outcomes stem primarily from the signaling effect rather than creators' competence or project quality. Cross-sectional results reveal that the benefits are more pronounced for projects in stricter tax regulatory environments, those launched by less experienced creators, and those with higher levels of information asymmetry. Overall, our evidence suggests that tax authorities' compliance certifications act as credible signals that influence entrepreneurial fundraising, highlighting the role of government tax disclosures in markets lacking external verification mechanisms and regulatory oversight.

Keywords: Government tax credit rating; entrepreneurial success; crowdfunding; information asymmetry; legitimacy.

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