

Expansion of the scope of Consumption Tax on super-luxury automobiles ——interpretation and solutions

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In brief

To encourage rational consumption, energy conservation and emission reduction, the Ministry of Finance (MOF) and the State Taxation Administration (STA) jointly issued the *Notice on Matters Concerning the Imposition of Additional Consumption Tax (CT) on Super-luxury Automobiles*¹ (Cai Shui [2016] No. 129, hereinafter referred to as "C129") in 2016. Beginning from December 1, 2016, a sub-tax category of "super-luxury automobiles" was introduced under the category of "small automobiles". CT was imposed on super-luxury automobiles under the sub-tax category of "passenger vehicles and medium-and-light commercial passenger vehicles" with a retail price of RMB 1.3 million and above at both the production (import) stage and the retail stage while electric vehicles were excluded. In July 2025, the MOF and the STA jointly issued the *Public Notice Adjusting CT on Super-luxury Automobiles*² (Public Notice [2025] No. 3, hereinafter referred to as "PN3") to lower the taxable threshold of the retail price for CT on super-luxury automobiles to RMB 0.9 million and include super-luxury automobiles without engine displacement, such as pure electric vehicles and fuel cell vehicles, in the scope of CT imposed at the retail stage, aiming to further promote tax fairness and drive sustainable development of the industry. PN3 took effect from July 20, 2025.

In this issue of News Flash, we will discuss the main contents and impacts of the PN3 for super-luxury automobiles and share our observations with you.

In detail

Key Contents and Changes of PN3

PN3 has made significant adjustments to the current CT policies for super-luxury automobiles, including adjustments to the taxable threshold of retail price, the scope of taxation, the tax payment stages, and the base for tax calculation, etc., which will have certain impacts on the entire automotive industry as well as relevant consumers. The details of PN3 are as follows, with the main changes marked in **red**:

Contents		C129 (Original)	PN3 (New)
Taxable threshold of retail price		RMB 1.3 million (VAT exclusive)	RMB 0.9 million (VAT exclusive)
Scope of taxation and tax payment stages	passenger vehicles and medium-and-light commercial vehicles (i.e. traditional fuel-powered vehicles)	Taxable at the production (import) stage + additional 10% CT at the retail stage	Taxable at the production (import) stage + additional 10% CT at the retail stage
	passenger vehicles and medium-and-light commercial vehicles without cylinder capacity (displacement) such as pure electric or fuel cell powered vehicles	Not taxable	10% CT at the retail stage
	sales of second-hand super-luxury automobiles	No explicit stipulation	Not taxable
Tax base		Sales price at the retail stage with no further clarification	Sales price at the retail stage refers to the total price and extra charges related to the automobile purchase received by the taxpayer from the buyer, including the fees charged in the name of premium products, accessories, services, etc.
Effective date		C129 was issued on November 30, 2016, and came into effect on December 1, 2016. If the sales contract was concluded on or before 30 November but without the super-luxury automobile being delivered, with proper record-filing with the in-charge tax authorities within 5 working days from 1 December 2016 (inclusive), CT would not be imposed on the transaction at the retail stage.	PN3 was issued on July 17, 2025. Article 1 (taxable threshold) and Article 2 (scope of taxation and tax payment stages) of PN3 shall come into effect from July 20, 2025. The tax treatment of the transaction with concluded sales contract on or before the effective date while without the super-luxury automobile being delivered, is not mentioned in PN3. (Normal rules for the timing of CT liability shall apply if there is no special provision. For the detailed analysis, please refer to "PwC Observations" below.)

PwC Observations

Lower the taxable threshold of retail price

PN3 lowers the taxable threshold of CT for super-luxury automobiles, further involving more models and quantities of vehicles in the taxable scope. This is conducive to exerting the regulatory effect of taxation and also helps to ensure the stability of fiscal revenue.

Expand the scope of taxation

Currently, the market for new energy vehicles (NEVs) is developing at a rapid pace. PN3 includes high-end NEVs with power types such as pure electric and fuel cell into the scope of CT. On one hand, it helps to curb luxury consumption and precisely regulate income distribution. On the other hand, it initially realizes "equal rights for oil and electricity", which is conducive to

promoting fair competition between traditional fuel vehicles and NEVs, reflecting a certain degree of tax fairness. In addition, NEVs are still exempt from CT in the production stage, which also reflects the country's continued support for the green energy industry.

Both NEV manufacturers and traditional fuel vehicle manufacturers must reassess the balance between "cost transfer" and "price competitiveness". If all CT costs are transferred, the vehicle price may increase significantly, and price-sensitive customers may switch to second-hand vehicles or "light luxury" models priced under RMB 0.9 million, leading to a decline in sales and affecting market competitiveness. If they are partially transferred or not transferred (such as by providing additional vehicle purchase subsidies, insurance subsidies, replacement guarantees, or preferential financing arrangements, etc.), the profit margins of vehicle manufacturers will be further squeezed. Of course, according to the China Passenger Car Association, the market scale affected by PN3 is relatively small, accounting for only 0.1% to 0.2% of the total market volume. Thus, PN3 is anticipated to have a limited impact on the overall automotive market.

Clarify the tax base

PN3 clarifies that the fees charged in the name of premium products, accessories and services shall be included in the sales price at the retail stage, which effectively prevents entities from evading tax obligations by price splitting. At the same time, the clarification of the tax base will further promote the development of the automotive industry toward standardization and transparency and facilitate the effective tax collection and administration conducted by tax authorities. However, there remains controversy over whether premium products, accessories and services that are actually delivered at reasonable prices and not "charged in name", if priced separately from the vehicle itself, can be excluded from the CT calculation base or not. According to our observations, tax practices are relatively strict, that is, regardless of whether premium products, accessories and services are actually delivered, the corresponding prices are included in the sales price at the retail stage.

Effective date

As specified in PN3, the adjustments made to **the taxable threshold of retail price, the scope of taxation and tax payment stages**, as well as **the exemption from CT for the sales of second-hand super-luxury automobiles**, shall take effect from July 20, 2025. We have noticed that adjustments made to CT policies in recent years regarding automobiles, refined oil products, etc., usually take effect shortly after the announcement, leaving limited time for relevant entities to take advantage, effectively preventing tax evasion. Previously, C129 allowed CT exemption at the retail stage for the super-luxury automobiles for which sales contracts had been signed but not physically delivered before the effective date of C129 after record-filing, providing transitional tax treatment for already concluded transactions. However, PN3 does not provide similar transitional clauses. This may mean that even if a sales contract was concluded before July 20, the CT at the retail stage still has to be paid in accordance with PN3. Since there may be no expectation of paying CT at the time of signing contracts, the CT costs are not included in the price, which may cause an adverse impact on the sellers. We highly recommend that vehicle manufacturers fully consider the impact of PN3 on prices and explore the possibility of supplementing or amending contract terms with customers.

PN3 does not clearly specify the effective date for the adjustment to **the tax base**. However, considering that the corresponding clause is a supplementary interpretation of Article 3 of C129, there is a possibility of being retrospectively applicable. Taxpayers need to review whether there were similar controversial CT matters in previous practices and make timely adjustments to avoid being challenged by the in-charge tax authorities.

The takeaway

Overall, the adjustments made by PN3 are quite significant and may have impacts on consumers, manufacturers, sales entities, and even the entire automotive industry in multiple ways. PN3 aims to guide rational consumption through tax leverage, further promote the long-term development of the automotive industry in the green sector, and at the same time, advance tax fairness and ensure fiscal revenue. However, there is only a three-day interval between the release and its official enforcement. Faced with the time pressure and cost pressure, how all parties adjust and respond is crucial for them to adapt to the policy changes and achieve long-term development.

For **automobile sales entities (including 4S stores, direct retail stores, agents, etc.)**, it is necessary to clearly distinguish transactions before and after the effective date and provide supporting documentation to ensure accurate CT filing during the first period following the policy adjustment. For entities engaged exclusively in NEV sales, they had relatively little experience in CT practice in the past. However, as high-end NEVs are now included in the scope of CT, these relevant sales entities need to quickly familiarize themselves with CT policies to ensure their compliance in their subsequent tax practices. The newly-added CT costs may also be shared between consumers and automotive sales entities, thereby squeezing the profit margins of the

latter. Therefore, in the long term, the increase in tax burden will also have a chain effect on the pricing structure and sales strategy of the entire automotive industry.

For **parallel importers**, compared with "China - standard vehicles", the pricing of parallel imported vehicles is relatively flexible, as it is basically not restricted by manufacturers and, in circulation, does not involve multiple parties such as general distributors, regional agents, and 4S stores. Theoretically, there is an opportunity to avoid CT costs at the retail stage by offering lower prices. However, it should be noted that the pricing must comply with China's regulations of customs import tariffs, Value-added Tax (VAT), and the rationality of transfer pricing with sufficient documents retained so as to avoid risks such as additional tax liabilities, late fees, and administrative penalties that may be caused by low pricing.

For **second-hand vehicle trading platforms**, in practice, some regions used to impose CT on second-hand super-luxury automobiles priced above RMB 1.3 million. PN3 clarifies that no CT shall be imposed on the sales of second-hand super-luxury automobiles, which solves the issue of potential double taxation for consumers when purchasing high-end used automobiles through second-hand vehicle trading platforms. As a result, sellers are more willing to release their vehicles into the market, and buyers are more inclined to make purchases, thereby stimulating the transactions of second-hand vehicles, boosting market vitality, and indirectly improving the retention value of second-hand super-luxury vehicles.

In addition, as outlined in the *2025 Government Work Report*³, for future CT reform, efforts will be put to accelerate the shift of the tax collection of certain taxable items to latter stages and the transfer of revenue to local governments, thereby enhancing their financial autonomy. PN3, which imposes CT on high-end NEVs at the retail stage, further expands the scope of this rearward shift in tax collection. According to the *2025 Agenda for Legislative Work*⁴ issued by the State Council, the draft CT Law is prepared for submission to the Standing Committee of the National People's Congress for deliberation. We anticipate that the adjustments to CT policies will bring more valuable practical experience for the ongoing reform and legislative progress of CT.

Endnote

1. *Notice Jointly Issued by the MOF and STA Charging Additional Consumption Tax on Super-luxury Automobiles* (Cai Shui [2016] No. 129)
<https://fgk.chinatax.gov.cn/zcfgk/c102416/c5203630/content.html>
2. *Public Notice Jointly Issued by the MOF and STA Adjusting CT on Super-luxury Automobiles* (Public Notice [2025] No. 3)
<https://fgk.chinatax.gov.cn/zcfgk/c102416/c5241889/content.html>
3. *2025 Government Work Report*
https://www.gov.cn/yaowen/liebiao/202503/content_7013163.htm
4. *2025 Agenda for Legislative Work*
https://www.gov.cn/zhengce/content/202505/content_7023697.htm

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