News Flash
China Tax and Business Advisory

Resumption of consumption tax on certain battery products – phased adjustment and targeted tax exemptions

July 2026
Issue 5

In brief

In July 2026, the Ministry of Finance (MOF), the General Administration of Customs (GAC), and the State Taxation Administration (STA) jointly issued the Public Notice Regarding Adjusting the Consumption Tax (CT) Policies for Certain Battery Products[1] (Public Notice of MOF, GAC and STA [2026] No. 20, hereinafter referred to as “PN No. 20”). It specifies that from 1 September 2026, phased increase to the CT rate for certain battery products and resumption of CT on the battery products that were previously tax exempted will be implemented, further refining the CT system. These adjustments mark the end of the era of widespread tax exemption for the Chinese battery industry, which lasted over a decade. Acting as a regulatory tool, the tax leverage will again profoundly impact the upstream and downstream enterprises in the industry chain.

In this issue of China Tax/Business Insights, we will explore the key points and impact of the new CT policy regarding battery products and share our observations with you.

In detail

Key points of the tax policy

The adjustments in PN No. 20 adopt "phased adjustment and targeted tax exemptions" as principles to avoid causing a significant shock to related industries in the short term and to help relevant enterprises adjust their production and operations for a smooth transition. The key points of the new policy are as follows:

1. **Resumption of CT on certain battery products with phased tax rate increase** – From 1 September 2026, a CT rate of 2% will be levied on mercury-free primary batteries, nickel-metal hydride rechargeable batteries (also known as NiMH batteries), lithium primary batteries, lithium-ion batteries, and vanadium redox flow batteries. From 1 September 2027, the rate will increase to 4%. Photovoltaic cells (also known as solar cells) will be subject to CT at 2% from 1 April 2027, and 4% from 1 April 2028.
2. **Encouraging innovation with targeted tax exemptions for products like sodium-ion batteries and solid-state batteries** – To support the development of cutting-edge technologies, the policy specifies that from 1 September 2026 to 31 December 2028, new technology products such as sodium-ion batteries, solid-state batteries, fuel cells, and the following 3 types of photovoltaic cells: perovskite cells, tandem cells, and gallium arsenide cells, by own self will continue to be exempt from CT.
3. **Deduction rules to avoid double taxation across the multi-tier industry chain** – Taxpayers who purchase taxable battery products from manufacturers, receive the batteries from outsourced processing, or directly import the batteries by oneself or via agents, and use the batteries for the continuous production of other taxable battery products may deduct the CT paid on the raw materials based on the quantity used in the current period.
4. **Exemption thresholds and standardized administration** – Products eligible for tax reduction or exemption must comply with relevant national standards. Before applying for CT reduction/exemption for the first time, taxpayers must obtain a test report from a testing institution confirming that the battery product meets the corresponding national standards.
5. **Clarification of taxation on self-use** – Taxable battery products produced and used by the taxpayer for the continuous production of other taxable battery products are not subject to CT. If they are used for the continuous production of products other than taxable battery products or for other purposes (e.g., samples, construction in progress), CT must be filed and paid at the time of transfer for use.
6. **Specific scope and taxable items for imported batteries** are detailed in the appendices of PN No. 20.

PwC Observations

The new CT policy will impact relevant enterprises to a certain extent in terms of their CT treatment, product pricing strategies, overall industry chain layout, and medium-to-long-term development strategies. As PN No. 20 currently only provides general provisions regarding the deduction rules for taxable battery products without specifying detailed implementation rules for various scenarios within the industry chain, complex situations and ambiguities in tax collection and administration may exist in practice. We look forward to further clarification and specification in subsequent issuance of supporting documents.

(I) Impact on battery manufacturers

The policy adjustment may both “structurally impact” and “strategically guide” battery companies as follows:

- **Increasing operating costs, squeezing profit margins:** Mainstream lithium battery companies will face increased tax burdens and production costs, compressing corporate profitability if CT rate is set at 4%. This applies particularly to enterprises without a production-sales separation structure (i.e., those selling self-manufactured lithium battery products directly). Given that their product prices, which serve as consumption tax taxable prices, may encompass comprehensive value chain elements including R&D, manufacturing, sales and supply chain management, such companies will be most heavily affected by this round of policy adjustment.
- **Cash flow pressure from paying tax first and deducting later:** If a battery pack manufacturer completes production (triggering the CT liability) before receiving the CT deduction vouchers from the upstream cell manufacturer, the manufacturer will always have a significant amount of CT prepaid to the tax authorities, thereby creating cash flow pressure.
- **Risks in related-party transactions require special attention:** According to the current regulations, purchasing and direct-selling of batteries domestically does not require CT payment at the procurement and direct domestic sales stages. However, special attention is needed if the manufacturer and the sales company are related parties, as tax authorities will scrutinize whether the transaction arrangement has a reasonable commercial purpose. If a related-party transaction is considered to be done primarily for the purpose of avoiding CT, the tax authorities have the right to make tax adjustments according to Article 36 of the Tax Collection and Administration Law of the People’s Republic of China[2], requiring a re-determination of the taxable price based on the arm’s length principle, collecting taxes and imposing late payment surcharges. Companies should prepare sufficient pricing documentation in advance to cope with potential tax audits.
- **Accelerating technology upgrades and optimizing industrial structure:** The transitional tax exemption policies favor new technologies like sodium-ion and solid-state batteries, incentivize

companies to increase R&D investment, seize the high ground in next-generation technologies, and drive the industry from “scale expansion” towards “innovation-driven” growth. Meanwhile, if enterprises manufacture both taxable batteries (e.g., lithium batteries) and tax-exempt batteries (e.g., sodium-ion batteries), they should clearly delineate cost centers, conduct precise cost accounting, and establish reasonable pricing for different products.

- **Battery companies urgently need to catch up on CT compliance:** Most battery companies have long enjoyed exemptions and lack experience in the calculation logic, filing process, administration requirements, and export policies for CT. Systematic preparations are advised during the window period before PN No. 20 takes effect, including studying the relevant clauses directly applicable to the battery industry in the Provisional Regulations of the People’s Republic of China on CT[3] and the Detailed Implementation Rules for the Provisional Regulations of the People’s Republic of China on CT[4]. Key areas include understanding the timing of tax liability, the tax basis, the calculation of composite taxable prices under different scenarios, tax treatment regarding export businesses, tax filing periods and locations. They should also review their product lines against the Annotations on the Scope of Taxable Batteries for CT, proactively communicate with tax authorities to confirm classification for categories with converging technology paths or ambiguous product definitions, to avoid subsequent classification as taxable products and leading to taxes and late payment surcharges.
- **Contract review and pricing adjustments during window period:** With approximately one and a half months until PN No. 20 takes effect, companies should fully utilize this window period to comprehensively review existing sales contracts that will still be in effect after 1 September, and focus on whether contract price terms have room for renegotiation, whether delivery can be completed before 1 September, etc. Engaging in new pricing arrangements with downstream customers, adjusting price terms according to the new CT policy, confirming with upstream suppliers the required vouchers (e.g., special VAT invoices, tax withholding certificates, special customs import CT payment books) to ensure compliant CT deductions.

(II) Impact on new energy vehicle (NEV) manufacturers

As the primary downstream application for lithium batteries, NEV manufacturers will also be significantly affected:

- **Difficulty in passing on the tax burden, squeezing Original Equipment Manufacturers’(OEM) profits:** In the fiercely competitive electric vehicle market, the bargaining power of each link in the industry chain is key to determining the ultimate incidence of the tax burden. When vehicle OEMs lack bargaining power over upstream battery manufacturers and downstream consumers, the CT burden will ultimately be borne by the OEMs themselves. In the current industry environment of generally shrinking gross margins, the additional CT burden could directly erode the already thin profit margins, further exacerbating the operational pressure and survival challenges for OEMs.

- **Restructuring and upgrading of supply chain:** Guided by the tax policy, automobile manufacturers may be more inclined to partner with high-quality battery manufacturers that are deploying new battery technologies and enjoying tax exemption benefits. This will push the supply chain towards battery technology routes with higher energy density and safety, driving the overall upgrade of the supply chain.
- **CT treatment for extended-range electric vehicles (EREVs):** Currently, EREVs are already included in the scope of CT. Our preliminary assessment is that for manufacturers of EREVs, the CT paid on purchased batteries cannot be deducted from the CT generated in the vehicle production process, since at this stage, the taxable item for EREVs is the engine displacement instead of lithium batteries (i.e., the purchased batteries are not used for the continuous production of taxable battery products). If, in the future, pure electric vehicles are also included in the scope of CT, the possibility of deducting CT on lithium batteries would need to be discussed then.

The takeaway

Overall, the adjustment of the new CT policy is significant. For relevant enterprises, the window period with the 2% preferential tax rate from September 2026 to September 2027 represents a critical buffer for businesses to respond to the upcoming changes in CT burden. Companies should seize the opportunity to complete financial and tax preparations prior to the official implementation of the policy and fully take advantage of the transitional 2% tax rate applicable in the first year to reasonably manage their tax burden through cost optimization, product structure upgrades and other approaches. Regarding policy implementation, we look forward to the subsequent issuance of relevant supporting documents to enhance the certainty for enterprises' tax treatment and effectively reduce the industry compliance risks.

Endnote

1. Public Notice Jointly Issued by the MOF, GAC and STA Regarding Adjusting the Consumption Tax Policies for Certain Battery Products (Public Notice of MOF, GAC and STA [2026] No. 20)
   https://fgk.chinatax.gov.cn/zcfgk/c102416/c5251171/content.html
2. Tax Collection and Administration Law of the People's Republic of China
   https://fgk.chinatax.gov.cn/zcfgk/c100009/c5195081/content.html
3. Provisional Regulations of the People's Republic of China on Consumption Tax
   https://fgk.chinatax.gov.cn/zcfgk/c100010/c5194422/content.html
4. Detailed Implementation Rules for the Provisional Regulations of the People's Republic of China on Consumption Tax
   https://fgk.chinatax.gov.cn/zcfgk/c100013/c5207683/content.html

Let’s talk

For a deeper discussion of how this impacts your business, please contact **PwC’s China Tax and Business Service Team:**

Jeff Yuan
Head of Tax, China
+86 (21) 2323 3495
jeff.yuan@cn.pwc.com

Peter Guo
Tax Markets Leader, China
+86 (10) 6533 3415
p.guo@cn.pwc.com

Rex Chan
North Tax Leader, Chinese Mainland
+86 (10) 6533 2022
rex.c.chan@cn.pwc.com

Ray Zhu
Central Tax Leader, Chinese Mainland
+86 (21) 2323 3071
ray.zhu@cn.pwc.com

Rex Ho
South Tax Leader, China
+852 2289 3026
rex.ho@hk.pwc.com

News Flash
China Tax and Business Advisory

This China Tax and Business News Flash is issued by **PwC's National Tax Policy Services** in the Chinese Mainland and Hong Kong, which comprises a team of experienced professionals dedicated to monitoring, studying and analysing the existing and evolving policies in taxation and other business regulations in the Chinese Mainland, Hong Kong, Singapore and Taiwan. They support PwC's partners and staff in their provision of quality professional services to businesses and maintain thought-leadership by sharing knowledge with the relevant tax and other regulatory authorities, academies, business communities, professionals and other interested parties.

For more information, please contact:

Long Ma

+86 (10) 6533 3103

long.ma@cn.pwc.com

Please visit PwC's websites at http://www.pwccn.com (Chinese Mainland Home) or http://www.pwchk.com (Hong Kong SAR Home) for practical insights and professional solutions to current and emerging business issues.