

A Brief Discussion on Consumption Tax Planning

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Abstract: Consumption tax is calibrated within the price. The amount of consumption tax will directly affect the profits of enterprises. On a law-abiding premise, it is crucial to plan the consumption tax, reduce the burden of consumption tax, and increase the profits of enterprises. This article proposes several consumption tax planning strategies and methods to provide reference for taxpayers from three aspects: the scope of tax collection, the basis of tax calculation, and the tax rate.

Keywords: Consumption tax; Tax planning; Tax collection; Tax calculation; Tax rate

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1. Introduction

Consumption tax is a tax levied by the state on organizations and individuals who produce, subcontract, process, and import taxable consumer goods into a country, in an effort to adjust the consumption structure and guide the consumption direction. Only certain taxable consumer goods, of which there are now only 15 types, are considered objects of consumption tax. Each type of taxable consumer commodity is subjected to a separate consumption tax rate. All taxable consumer goods have a single-stage tax, except for wholesale cigarettes and luxury cars, which are subjected to an additional consumption tax. Furthermore, for some taxable consumer goods, the amount of consumption tax already paid may be deducted according to the quantity claimed during the production when such products are used for ongoing production of taxable consumer goods. Therefore, based on the aforementioned characteristics of consumption tax, consumption tax planning can be carried out from three aspects: the scope of tax collection, the basis of tax calculation, and the tax rate ^[1].

2. The scope of consumption tax

2.1. Planning the scope of consumption tax levy by pricing

The scope of consumption tax includes specific taxable consumer goods. Some consumer goods must reach a certain price threshold in order to qualify as taxable consumer goods, such as high-end cosmetics, which are defined as cosmetics with an after-tax wholesale price of over 15 yuan per piece or 10 yuan per gram (milliliter), and luxury watches, which refer to those with a value-added tax of 10,000 yuan per block. Therefore, it is possible to plan the scope of consumption tax by adjusting the price, that is to say, lowering the price so that it is lower than the price stipulated by the consumption tax law. In this way, taxable consumer goods can be converted into non-taxable consumer goods, and the tax burden on enterprises can be reduced ^[2].

Case 1

A new luxury watch entered the market in May 2022, changing the company's history without luxury timepieces. The company received proposals for price planning and finally decided on two options to be shortlisted:

- (1) Pricing Scheme 1: Excluding tax price 12,000 yuan/block;
- (2) Pricing Scheme 2: Excluding tax price 9,900 yuan/block.

The unit cost of the watch is 4,800 yuan. The enterprise income tax rate is 25%, and the consumption tax rate is 20%; the city construction tax and the education fee are not considered. Which scheme is then beneficial to the enterprise?

(1) Pricing Scheme 1

Since the price of Scheme 1 is more than 10,000 yuan per block, it falls under the category of taxable consumer goods, thus necessitating the payment of consumption tax.

Consumption tax payable = $12,000 * 20\% = 2,400$ (yuan)

Gross profit = $12,000 - 4,600 - 2,400 = 5,000$ (yuan)

Net profit = $5000 * (1 - 25\%) = 3,750$ (yuan)

(2) Pricing Scheme 2

Since the price of Scheme 2 is less than 10,000 yuan per block, it falls under the category of non-taxable consumer goods, thus no consumption tax is required.

Consumption tax payable = 0 (yuan)

Gross profit = $9,900 - 4,600 = 5,300$ (yuan)

Net profit = $5,300 * (1 - 25\%) = 3,975$ (yuan)

As can be seen from the above analysis, net profit of Pricing Scheme 2 is higher than that of Pricing Scheme 1, and in view of the lower price, the product will be more popular. As a concluding remark, luxury watches priced in the range of 10,000 yuan to 12,500 yuan per block are unfavorable for taxpayers; reducing the price to less than 10,000 yuan can convert taxable consumer goods into non-taxable consumer goods, but if the price is more than 12,500 yuan per block, it is not necessary to reduce the price.

The idea of converting taxable consumer goods into non-taxable consumer goods through price reduction can also be applied to consumption tax planning for cosmetics.

2.2. Avoidance of consumption tax on package sales

The tax law stipulates that when a taxpayer sells a package consisting of self-produced taxable consumer goods and self-produced or purchased non-taxable consumer goods, the tax shall be calculated on the sales amount of the packaged products (excluding value-added tax). Therefore, taxpayers should separate their sales, so that they can prevent the conversion of non-taxable consumer goods into taxable consumer goods and avoid paying more consumption tax ^[3].

Case 2

Hongda Daily-Use Chemical Company is a general taxpayer of value-added tax. The company produces luxury cosmetics and ordinary hair care products. In February 2022, the factory assembled several luxury cosmetics and hair care products into a set during its promotional activities, selling a total of 2,000 sets, with each set having a value-added tax price of 565 yuan (when sold separately, 452 yuan for luxury cosmetics, and 113 yuan for hair care products). If the known value-added tax rate is 13% and the consumption tax rate is 15%, what is the consumption tax payable by the factory in February 2022, and how to plan in such a way to reduce the consumption tax burden?

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(1) Before tax-planning

If the taxpayer sells a package consisting of luxury cosmetics and hair care products, the tax shall be calculated based on the sales amount of the packaged products (excluding value-added tax).

Consumption tax payable = $2,000 * 565 / (1 + 13%) * 15% = 150,000$ (yuan)

(2) After tax-planning

If the taxpayer sells luxury cosmetics and hair care products separately, the sales amount of hair care products need not pay the consumption tax because the hair products are considered non-taxable consumer goods.

Consumption tax payable = $2,000 * 452 / (1 + 13%) * 15% = 120,000$ (yuan)

As can be seen from the above analysis, the separate sale of taxable consumer goods and non-taxable consumer goods can save 30,000 yuan in consumption tax.

3. The basis of tax planning

3.1. Tax planning for consumption tax by means of transfer pricing

3.1.1. The basis for such planning

For taxable consumer goods sold by taxpayers through self-established, non-independent accounting departments, consumption tax shall be levied on the amount of external sales or sales volume of the department.

3.1.2. Planning ideas

The transfer pricing of affiliated enterprises refers to the internal prices adopted by the parent company, its subsidiaries, and affiliated enterprises when they trade goods, services, or technologies ^[4].

Case 3

Gujin Liquor Company mainly produces and sells white spirit. In 2022, the annual sales volume of white spirit is 8,000 cases. The price of white spirit is 1,000 yuan per case, in which there are 10 bottles per case, weighing 1 catty per bottle. In order to reduce the burden of consumption tax, the enterprise intends to establish a sales company in each province. As the provincial general agent of the enterprise, the sales company will control the regional market wholesale, and the production enterprise will sell their white spirit to the sales company at a price of 750 yuan per box (excluding value-added tax). The sales company will then sell the goods at a price of 1,000 yuan per case. Assuming that the annual sales volume is 8,000 cases and the known consumption tax rate is 20% and 0.5 yuan per catty ^[5], how much less consumption tax can be calculated after the establishment of the sales company?

(1) Before the establishment of the sales company

Consumption tax payable = $8,000 * 1000 * 20% + 8000 * 10 * 0.5 = 1,640,000$ (yuan)

(2) After the establishment of the sales company

Consumption tax payable = $8,000 * 750 * 20% + 8,000 * 10 * 0.5 = 1,240,000$ (yuan)

As can be seen from the above analysis, the establishment of the independent sales company can save 400,000 yuan in consumption tax.

Through this case, the establishment of a separate sales company and the sales of liquor at a lower price to the sales company can reduce the tax burden. The overall income of the enterprise is not affected by the sales company's adherence to the normal price of external sales. However, the price of sales to affiliated enterprises cannot be too low, generally not lower than 70% of the market price; otherwise, it may lead to the requirement of tax authorities' approval based on the approved price calculation of consumption tax ^[6].

3.2. Planning through the choice of means of sale

3.2.1. The basis for such planning

The Consumption Tax Law stipulates that if the taxable consumer goods are used for exchange for production or consumption materials, investments, and debt repayment, the consumption tax shall be calculated on the basis of the highest selling price of taxable consumer goods of the same kind ^[7].

3.2.2. Planning ideas

In the sales of consumer goods, using sales contracts to sell goods normally, and then using the money received for exchange, investment, and debt repayment may be favorable for avoiding consumption tax payment based on the highest price ^[8].

Case 4

In May 2022, Sichuan Longteng Motorcycle Production Company sold the same model of motorcycles at three different prices: 50 motorcycles were sold at a unit price of 4,000 yuan, 10 motorcycles were sold at a unit price of 4,500 yuan, and 5 motorcycles were sold at a unit price of 4,800 yuan. In the same month, 20 motorcycles of the same model were used in exchange for raw materials. Assuming that the price of the motorcycle was determined by the weighted average selling price of the current month, and the consumption tax rate of the motorcycle was 10%, how does the motorcycle manufacturer plan to reduce tax expenditures in the process of exchanging motorcycles for raw materials?

(1) If Sichuan Longteng Motorcycle Production Company exchanges motorcycles directly for raw materials

Amount of consumption tax payable = $4800 \times 20 \times 10\% = 9,600$ (yuan).

(2) If the company first signs a sales contract with the buyer, determines the sales income based on the average price, and calculates the consumption tax according to the average price, then Sichuan Longteng could consent to allow the buyer to pay for it with the goods.

Taxable amount of consumption tax = $(4000 \times 50 + 4500 \times 10 + 4800 \times 5) / (50 + 10 + 5) \times 20 \times 10\% = 8,276.92$ (yuan)

After planning, the consumption tax is reduced by 1,323.08 yuan ($9,600 - 8,276.92$).

4. Consumption tax rate

4.1. Skillfully reducing the product price

The tax rate of taxable consumer goods changes with the change in price. At the critical point of the change of tax rate, the increase in tax burden will be greater than the increase in profit. In this case, skillfully reducing the product price can increase the after-tax profit by reducing the consumption tax rate. Such taxable consumer goods include cigarettes and beer. **Table 1** shows the tax rate and category of cigarettes and beer ^[9].

Table 1. Tax rate and category of cigarettes and beer ^[10]

Taxable consumer goods	Characteristics	Tax rate
Grade A cigarettes	Price not lower than 70 yuan per carton	56%, 150 yuan per case
Grade B cigarettes	Price lower than 70 yuan per carton	36%, 150 yuan per case
Grade A beer	Price not lower than 3,000 yuan per ton	250 yuan per ton
Grade B beer	Price lower than 3,000 yuan per ton	220 yuan per ton

Case 5

Longquan Beer Enterprise launched a new type of beer, in which the cost is 1,100 yuan/ton. It has two pricing schemes: Pricing Scheme A sells the beer at a price of 3,029 yuan per ton; Pricing Scheme B sells the beer at a price of 2,999 yuan per ton. The consumption tax rate of beer includes two grades: the consumption tax rate of beer with the sales amount of below 3,000 yuan per ton is 220 yuan per ton, whereas the consumption tax rate of beer with the sales amount of 3,000 yuan per ton or above is 250 yuan per ton. Assuming no other special circumstances are taken into account, the gross profit of the two schemes are compared ^[11].

(1) Pricing Scheme A

$$\text{Gross profit} = 3,029 - 1,100 - 250 = 1,679 \text{ yuan}$$

(2) Pricing Scheme B

$$\text{Gross profit} = 2,999 - 1,100 - 220 = 1,679 \text{ yuan}$$

As can be seen from the above analysis, Longquan Beer Enterprise makes exactly the same gross profit. Clearly, for the same beer, low price beer has greater competitiveness. At a glance, it is evident which of the two plans is superior. Further considering these schemes, if the beer prices are set between 3,000 yuan and 3,029 yuan, the enterprise would not only lose its pricing advantage, but also its gross profit would not be as favorable as it would be under Scheme B.

4.2. Tax planning by avoiding high consumption tax rates

The tax law stipulates that for taxpayers dealing with taxable consumer goods of different tax rates, the sales amount and sales volume for the taxable consumer goods shall be accounted for separately. If the sales amount and sales volume have not been accounted for separately or if the taxable consumer goods of different tax rates are combined into a set of consumer goods for sales, a higher tax rate shall be applied. Therefore, taxpayers should sell before packaging to avoid combined sales and account for the sales amount and sales volume separately, which can prevent high tax rate and reduce the consumption tax burden ^[12].

Case 6

Baisha Wine Company has a stock of red wine to sell, and in order to clear the stock as soon as possible, the company intends to adopt the combination sales method, which involves selling one bottle of white spirit plus one bottle of red wine. The company sells 10,000 bottles of red spirit, in which the income is 5 million yuan (excluding value-added tax). If the white spirit and red wine are sold separately, the selling price of the white spirit is 4 million yuan and that of the red wine is 1 million yuan. Both the red wine and white spirit are specified at 500 grams per bottle. The consumption tax payable on separate sales is compared with that on combined sales ^[13].

(1) Combined sales

$$\text{Consumption tax payable} = 5,000,000 * 20\% + 10,000 * 2 * 0.5 = 1,010,000 \text{ (yuan)}$$

(2) Separate sales

$$\text{Consumption tax payable} = 4,000,000 * 20\% + 1,000,000 * 10\% + 10,000 * 0.5 = 905,000 \text{ (yuan)}$$

As can be seen from the above analysis, if the sales amount and sales volume for the taxable consumer goods are accounted for separately, it can save 105,000 yuan (1,010,000 – 905,000) on tax consumption.

5. Conclusion

First of all, consumption tax can be reduced by avoiding combined sales and price reduction. Second, it is possible to reduce the tax basis of consumption tax by setting up an independent accounting sales company to carry out transfer pricing. Finally, the tax rate of consumption tax can be reduced by reducing the price of the critical point and separating sales. This can effectively reduce the amount of consumption tax payable,

reduce the burden of enterprise consumption tax, and increase the profits of enterprises ^[14].

However, it is worth noting that in consumption tax planning, the provisions of consumption tax must be mastered, and there should be active communication with the tax authorities to avoid risks caused by the lack of understanding of consumption tax regulations ^[15].

Disclosure statement

The author declares no conflict of interest.

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