Tax Newsflash

China expands consumption tax on ultra-luxury cars

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On 17 July 2025, China's Ministry of Finance and State Taxation Administration issued Bulletin [2025] No. 3 ("Bulletin 3"), which expands the scope of consumption tax for ultra-luxury cars by lowering the applicable price threshold. Bulletin 3 also includes qualifying new energy vehicles within the scope of consumption tax. Bulletin 3 is effective as from 20 July 2025.

Background

China imposes consumption tax on both automobile manufacturers and retailers. Manufacturers are subject to a consumption tax ranging from 1% to 40% (based on engine displacement) on passenger vehicles, or a flat 5% consumption tax on medium/light commercial vehicles. Retailers are subject to a 10% consumption tax on ultra-luxury cars, defined as passenger vehicles or medium/light commercial vehicles whose retail price reaches the threshold.

Highlights of Bulletin 3

1) Price threshold

Bulletin 3 reduces the retail price threshold for ultra-luxury cars from RMB 1.3 million to RMB 0.9 million (excluding VAT) per vehicle. This expanded definition brings more vehicles under the 10% consumption tax regime.

When retailers impose additional fees for services, accessories, or other items, these charges may be included in the vehicle's retail price for consumption tax calculation purposes.

2) New energy vehicles

While electric vehicles were previously exempt from consumption tax, Bulletin 3 now subjects all qualifying new energy vehicles to the 10% consumption tax once they meet the price threshold, regardless of power type.

Bulletin 3 explicitly exempts manufacturers of engineless electric vehicles (including battery electric and fuel cell electric vehicles) from consumption tax obligations, as these vehicles lack traditional combustion engines.

3) Miscellaneous

Bulletin 3 provides that used ultra-luxury cars are exempt from consumption tax.

Comments

China's booming new energy vehicle sector has fueled ongoing debates about consumption tax policy, particularly regarding whether new energy vehicles should be taxed equivalently to traditional vehicles. Bulletin 3's introduction suggests a potential policy shift toward broader consumption tax coverage for new energy vehicles.

Last year, the resolution adopted by the third plenary session of the 20th Central Committee of the Communist Party of China announced plans to transfer the consumption tax obligations from manufacturers to retailers. The automotive sector has been widely anticipated to be among the first industries affected by this reform. While Bulletin 3 maintains manufacturer tax obligations for now, its expansion of ultra luxury car coverage may serve as a transitional measure to allow both the tax authorities and auto retailers to adapt to full retail stage tax collection in the future.

Affected businesses, particularly new energy vehicle retailers, should take immediate action to review and update tax compliance process, identify all qualifying vehicles subject to the expanded consumption tax, and ensure accurate calculation, filing, and payment of applicable taxes.

Authors

Charles Gong
Deloitte China
Tax Partner
+86 10 8520 7527
charlesgong@deloittecn.com.cn

Arnuo Wang
Deloitte China
Assistant Manager
+86 531 8973 5887
arnwang@deloittecn.com.cn

For more information, please contact:

Indirect Tax
National Leader
Lily Li
Tax Partner
+86 21 6141 1099
lilyxcli@deloittecn.com.cn

Northern and Western China
Marilyn Lu
Tax Partner
+86 10 8520 7668
marilynlu@deloittecn.com.cn

Eastern China
Candy Tang
Tax Partner
+86 21 6141 1081
catang@deloittecn.com.cn

Southern China
Janet Zhang
Tax Partner
+86 20 2831 1212
jazhang@deloittecn.com.cn

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