Research on the Impact of Shifting the Collection Stage of Passenger Vehicle Consumption Tax to Retail and Decentralizing Revenue to Local Governments

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Abstract. This paper systematically investigates China's reform to shift the collection stage of passenger vehicle consumption tax from production to retail and decentralize revenue to local governments. It identifies institutional flaws in the current production-stage taxation model, including tax base erosion, weakened regulatory functions, and regional fiscal imbalances. The study demonstrates the necessity of the reform through a three-dimensional framework of tax system optimization, economic efficiency, and policy effectiveness. Projections show that the reform will effectively increase local fiscal revenue, optimize urban governance through a "tax-service" virtuous cycle, and establish a modern consumption tax system that fosters positive interaction between consumption-based taxation and local governance.

Keywords: Passenger vehicles; Consumption tax; Collection stage; Revenue decentralization

1 Introduction

Recently, the 2025 Government Work Report further emphasized "accelerating the shift of collection stages for selected consumption tax items and decentralizing revenue to local governments to enhance their fiscal autonomy," while advocating "exploring mechanisms to incentivize local governments to cultivate revenue sources through high-quality development." These initiatives underscore that shifting the collection stage of eligible consumption tax items to retail and steadily decentralizing revenue have become critical components of China's fiscal and tax system reform.

Empirical research by Lyu et al. (2020) confirmed that embedded tax burdens weaken consumers' perception of taxes, leading to the failure of "sin tax" policy transmission [1]. Zhang (2021) emphasized that under the "dual circulation" development paradigm, shifting the tax collection stage can enhance tax visibility, guide rational consumption, and align public service demands in consumption areas [2]. Wang et al. (2021) further proposed that allocating retail-stage tax revenue to local governments could incentivize infrastructure development [3].

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2 In-Depth Study on the Necessity of Reforming the Collection Link of Car Consumption Tax

The current single collection model at the production stage for car consumption tax has systematic institutional flaws, restricting the full realization of its fiscal functions and policy effectiveness.

2.1 Structural Prevention and Control of Tax Base Erosion Risks

The current tax system uses the ex-factory price at the production stage as the tax base, creating two major regulatory blind spots: First, tax avoidance through vertical related-party transactions. Production enterprises set up holding sales companies to implement transfer pricing, artificially depressing ex-factory prices to shrink the tax base and form a channel for internal profit transfer within the group [4]. Second, horizontal decomposition of taxable items. Manufacturers split core functional modules from auxiliary components for separate sales, exploiting the ambiguity of the "complete vehicle" concept to avoid the taxable scope.

2.2 Efficiency Reconstruction of the Tax Burden Transmission Mechanism

The indirect tax nature requires that consumption tax be ultimately borne by consumers through price transmission, but the current system has dual transmission blockages: In terms of short-term liquidity pressure, intermediaries advance taxes during inventory turnover, creating capital occupation costs and intensifying supply chain financial frictions. In terms of long-term market risks, unsalable goods may lead to tax burdens being stranded in the circulation link, violating the tax ethics of the "benefit principle" and "internalization of negative externalities." Shifting the collection link to the retail stage achieves the temporal-spatial coupling of tax burdens with consumption behavior, realizing "taxation at the time of immediate consumption."

2.3 Explicit Reconstruction of Consumption Regulation Functions

The current embedded tax design (price-inclusive tax) leads to the weakening of three functions: The masking of price signals causes consumption tax to be embedded in multiple layers of circulation markups, making it difficult for consumers to perceive the actual tax burden [5]. The ineffectiveness of behavioral guidance weakens the transmission efficiency of policy intentions such as "green consumption promotion" and "luxury consumption suppression" [6]. The absence of income distribution regulation makes it impossible to achieve stratified consumption regulation through differential tax rates [7].

3 Feasibility of Reforming the Car Consumption Tax

The reform of shifting the collection link of car consumption tax to the retail stage is realistically feasible in terms of institutional foundation, tax administration capacity [8], and regional coordination.

3.1 Perfection of the Retail-Stage Tax Administration System

Since the implementation of the policy to impose an additional consumption tax on ultra-luxury cars at the retail stage in 2016, tax authorities have built a specialized administration model for high-value consumer goods through full-process management of taxpayer identification, return review, and tax settlement. After long-term policy adaptation, retail enterprises have generally established standardized fiscal and tax accounting systems and formed standardized operational procedures in areas such as invoice management and tax transfer.

3.2 Technical Integration with Vehicle Registration Management

The "document-based access" principle established in the Regulations on Motor Vehicle Registration naturally forms a rigid constraint mechanism for tax collection through the legal correlation between purchase invoices and vehicle registration. This institutional design has dual governance effects: First, pre-approval tax verification eliminates the risk of tax loss caused by administrative delays; second, data interoperability between vehicle management departments and tax systems enables dynamic tracking of tax sources.

3.3 Balanced Characteristics of Industrial Spatial Layout

The spatial coupling between the geographical distribution of the automobile industry and consumption markets significantly reduces resistance to tax system reform. From the supply-side perspective, major automobile groups have formed a networked production capacity structure covering eastern, central, and western regions through cross-regional production base layouts, breaking the traditional concentrated production model. Demand-side data shows that central and western regions, driven by accelerated urbanization, consumption upgrading, and improved infrastructure, are becoming new growth poles for automobile consumption.

4 Effect Analysis of Car Consumption Tax Reform

4.1 Optimizing the Guidance Mechanism for Consumption Behavior

Shifting the collection link of car consumption tax from the production stage to the retail stage essentially realigns policy tools with consumption decision-making scenarios through the redistribution of tax collection spaces. The post-reform system of separate price-tax disclosure—by independently listing consumption tax amounts and applicable tax rates on purchase invoices—establishes an explicit transmission channel for tax information. This design activates the mental accounting effect in behavioral economics: consumers incorporate tax expenditures into a separate cost-accounting framework during decision-making, significantly enhancing their sensitivity to environmental costs.

4.2 Expanding the Sustainability of Local Fiscal Reform

The reform reconstructs the underlying logic of fiscal relations between central and local governments through dual adjustments to the tax base attributes and revenue ownership. At the tax base conversion level, changing the tax calculation basis from the ex-factory price at the production stage to the terminal transaction price at the retail stage effectively addresses the long-standing issue of tax base shrinkage. Under production-stage taxation, enterprises may depress ex-factory prices through related-party transactions to reduce the tax base, while the terminal transaction price at the retail stage includes value-added across the entire chain—including dealer profits and ancillary services—making the tax base more fully reflect the commodity's market value[9].

4.3 Reconstructing the Incentive Orientation of Local Governments

The tax system adjustment triggers a profound transformation in the governance logic of local governments, shifting from a "production-centered" investment competition model to a "consumption-focused" development strategy. After the reform, consumption tax revenue is directly linked to local automobile consumption scale, prompting local governments to refocus policies on optimizing the consumption environment[10]: on the one hand, increasing investment in consumption-related infrastructure such as road networks and parking facilities to enhance regional traffic accessibility; on the other hand, building a high-quality consumption ecosystem through measures like improving after-sales service standards and strengthening consumer rights protection.

5 Conclusion

Relying on the motor vehicle registration system, digital tax administration framework, and balanced industrial layout, the reform has technical support and regional coordination foundations. Policy implementation will expand local revenue sources, optimize the "taxation-service" cyclic governance, and guide consumption structure upgrading and low-carbon industrial transformation through explicit tax burden signaling.

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