

# Feasibility Analysis of Consumption Tax Reform under the Background of Improving Local Tax—Take the Comparison between Wine and Refined Oil as An Example

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## Abstract

This article selects the representative product oil and liquor category research in the consumption tax. First, it analyzes the industry's production and sales formats, investigates the degree of deviation between production and sales, and then analyzes the adequacy of tax sources to ensure social stability. The ultimate goal is to discuss the backward shift of these two categories of taxation, the matching of financial rights and responsibilities until the establishment of the possibility of the main tax category exclusively shared by the local government. On this basis, it is revealed that the consumption tax reform cannot be "one size fits all" and requires the principle of "one category, one policy, classified policy", so that local governments' financial power and power of affairs can be matched, residents' income can be adjusted, and social justice can be promoted.

## Keywords

Consumption Tax Reform; Local Finance; Liquor; Refined Oil.

## 1. Introduction

On March 11, 2021, the National People's Congress voted to pass the "Resolution on the 14th Five-Year Plan for China's National Economic and Social Development and the Outline of 2035 Vision Goals" hereinafter referred to as the "Resolution." The resolution calls for expanding domestic demand, focusing on the needs of residents' consumption upgrades, building a strong domestic market, and building a new development pattern with domestic and international cycles as the main body, domestic and international cycles, and mutual promotion. Consumption has become the first driving force leading China's economic growth.

At present, most domestic researches on consumption tax are based on the nature of selective commodity tax, and analyze and analyze from the level of item selection and tax rate selection. This article focuses on the transfer of tax sources based on a sound local tax system. According to the requirements of the "Resolution": adjust and optimize the scope of consumption tax collection and Tax rates, promote the backward movement of collection links and steadily subdivide local governments, promote consumption tax legislation, and improve the local tax system. In-depth discussion on the selection of items under the localization of consumption tax and the impact of actual levy, so as to provide a new perspective for the study of localization of consumption tax.

## 2. The Overall Goal of Consumption Tax Reform under the New Development Pattern

### 2.1 Expand Domestic Demand and Support the Development of Internal Circulation

Under the current fiscal and taxation system, local governments have long been concerned about enterprises' investment promotion and lack of support for people's livelihood consumption, and the development of the tertiary industry has been restricted. It is necessary to reform the fiscal and taxation structure and clarify the local fiscal revenue plan for docking consumption. Give local governments the motivation to create a good consumption scene, conform to the consumption

upgrade trend of residents, expand the internal circulation, and improve the quality of life of the people.

## **2.2 Give Full Play to the Income and Adjustment Functions of Consumption Tax**

Consumption tax, as a non-neutral regulatory tax, happens to co-exist with value-added tax. It has many functions to promote safe, green and healthy consumption; regulate income distribution; control fossil energy consumption and promote clean use of energy. It is hoped that after the reform, the intention of "commitment and taxation" will be clarified to consumers through the separation of prices and taxes. At the same time, it can avoid the nationwide development of fossil energy in accordance with local conditions. In the vast areas of China's northwest, northeast, and southwest, on the one hand, fossil energy is still indispensable. On the other hand, these areas are sparsely populated, and the pollution caused by fossil energy can be resolved by the natural environment.

## **2.3 Adjust According to Items and Improve the Local Tax System**

The element of the reform of the localization of the consumption tax is the adjustment of the tax source. However, the realization of the above goals must be based on the premise that the tax base of the taxable items is not dispersed, and the place of production and consumption are not significantly deviated from each other. At the same time, the backward movement of taxation links has its drawbacks, such as difficult control of tax sources, increased taxation costs, local governments' competition for tax sources with no lower limit, and changes in the situation of strong and weak branches, all of which ultimately lead to the weakening of tax regulation. And these depend on the selection of items. Improper selection of items will not only lead to the failure to achieve the expected goals, but also lead to greater crises. Therefore, the tax source adjustment should be revised according to the item.

## **3. Analysis of Core Factors of Consumption Tax Localization Reform: Adjustment of Tax Source**

Consumption tax revenue fluctuates with a large range of growth, and there are large differences between provinces. When the consumption tax is subdivided, it is necessary to carefully choose the base year to ensure a smooth transition between the central government and the provinces. After determining the base figure, it is recommended that it be used as a fixed amount for the central government in various regions, and it should be cut off from the growth of consumption tax revenue in various regions.

Cigarettes, liquor, refined oil, and cars, among the many tax items, have taxes of more than 90%. Therefore, the four major tax items mentioned above should be the key considerations of the consumption tax reform. Tobacco and alcohol are both publicly hazardous consumer goods, and cars and refined oil are used as environmentally hazardous consumer goods. In September 2019, according to the relevant plan issued by the State Council, the collection of consumption tax will be moved later. The approved base of the stock part will be controlled by the central government, and the incremental part will in principle belong to the local government.

Therefore, in this paper, among the four major tax items of consumption tax, two representative tax items of liquor and refined oil are selected, and whether the two should be included in the post-consumption tax reform, as the adjustment object, consider from the following perspectives:

### **3.1 Departure between the Place of Production and the Place of Consumption**

China's current consumption tax is mainly levied in the production (import) link, which is a central tax. The central government mobilizes the enthusiasm of local governments to develop production and cultivate financial resources by determining the tax return base, and promote a reasonable increase in consumption tax. The backward shift of the consumption tax link has many benefits and expected goals, but for items that are separated from the place of production and consumption, it may cause more harm than good results.

### 3.1.1 Liquor: A High Degree of Deviation between the Place of Production and the Place of Consumption

The production areas of Chinese liquor are concentrated in the central and western regions, while the consumption areas are inclined to the east. In terms of regional distribution, the five regions with the largest wine production in China in 2019: Sichuan, Shandong, Guangdong, Heilongjiang, and Henan, with a total wine production of 24.004 million KL. It accounts for 42.94% of the country's total wine production."

In addition, from the perspective of listed companies in the liquor industry, they are mainly concentrated in the central and western regions. According to Table 2, it can be seen that "of the 19 listed liquor companies in China, only 4 are located in the eastern region, and the remaining 15 are located in the central and western regions." Among them, taking Anhui as an example, there are four listed liquor companies in the province. , Accounting for more than 20% of listed liquor companies in the country. Taking Sichuan as an example, the revenue of its four listed liquor companies accounted for 29% of all listed liquor companies. Therefore, in sales, liquor sales are all over the country, and are inclined to the eastern coastal areas. The proportion of alcohol consumption in the eastern coastal areas is significantly higher than that in the inland areas. "The top five regions in terms of the frequency of consumption of young alcoholic beverages in 2018 are: Shanghai, Beijing, Hainan, Shandong, and Zhejiang"

It can be seen that there is a clear departure between the place of production and the place of consumption of liquor. In the case of deviation, if the taxation link is kept unchanged, it will be classified as a local tax, which will inevitably violate the role of consumption tax, induce localities to blindly expand the production of negative externalities, and undermine the normal supply side relationship of special consumer goods.

If it is classified as a local tax and the taxation link is moved to the retail link, it will inevitably cause tax revenue to shift from the place of production to the place of consumption, resulting in a sharp drop in tax revenue from the production area, affecting local stability and the balanced development of various regions. At the same time, various localities are induced to promote the sales of these items. Disrupt the normal relationship on the demand side of special consumer goods.

### 3.1.2 Refined Oil: Low Degree of Deviation between the Place of Production and the Place of Consumption

According to data from the National Bureau of Statistics, China has long been dependent on oil for a long time, and oil is mainly imported. While most of the imported oil is in coastal provinces such as Shandong, Liaoning, Guangdong, and Jiangsu, where the imported crude oil is refined into gasoline and other industrial oils, but for refined oil powered by tools, attention is paid to refineries. The distribution is more important.

The distribution of China's oil refineries is relatively even. On the one hand, it benefits from the northwest and northeast oil fields. On the other hand, petroleum is a dangerous chemical, which is difficult and expensive to transport. Therefore, China's gasoline production is relatively balanced, basically self-produced and sold in various regions.

In terms of consumption, the consumption of refined oil in various provinces accounts for roughly the same proportion of national consumption and population. For example, the difference between consumption of refined oil in Jiangsu and the proportion of national consumption and population is only 1.16%, while that in Anhui Province is 0.34%.

The consumption of refined oil is closely related to the usage of automobiles and the degree of development of the manufacturing industry. From the perspective of car ownership, the per capita car ownership in first-tier cities is lower than that in some second- and third-tier cities. Although the population density of first-tier cities is higher, the number of cars in theory should be larger in theory, but the actual number is relatively small. None of the four first-tier cities in Beijing, Shanghai, Guangzhou and Shenzhen are among the top seven cities in China. The reasons are summarized as follows:

First-tier cities have developed public transportation, such as subways, buses and other public travel tools are widely used, reducing the use of cars to a certain extent.

Due to the high population density, number restriction policy, high cost of car maintenance and street congestion in first-tier cities, people correspondingly reduce the amount of cars used, and correspondingly reduce the consumption of refined oil.

New energy vehicles are affected by the unrestricted number policy, while the suburban control measures are relatively light, and the auto market continues to develop. With the new energy vehicles, there are still many limitations. The government implements incentives for cars to go to the countryside and purchase tax preferential policies, which are even more powerful. Promoting local automobile consumption, the consumption of refined oil has risen accordingly.

In summary, the main processing places of refined oil are more compatible with the main consumer markets, and with the transfer of manufacturing and the increase in car ownership, the connection will become closer.

### **3.2 Whether the Tax Sources Are Centralized and Easy to Collect and Manage**

#### **3.2.1 Liquor: Decentralized Tax Sources**

Liquor is a traditional alcoholic beverage on the table in our country. Entering modern times, with the improvement of people's consumption power, the development of liquor enterprises is guiding people's consumption direction.

Data from wine distribution channels show that high-end and sub-high-end wines have become the necessities of choice for wine consumers during the Spring Festival, whether online or offline. The number of new wine retail users in 2020 is about 460 million, and it is expected that the number of users will reach 540 million in 2021.

Liquor companies have expanded their distribution channels, advancing side by side with the mode of group buying, direct selling, and e-commerce. On the one hand, it operates its own e-commerce platform APP, on the other hand, it adopts its own procurement or cooperative distribution with major e-commerce companies to authorize online operations. At the same time, in the field of new retail, new retail platforms such as Zui Goniang mainly focus on experiential, live short video sales, and are developing rapidly on Douyin and Kuaishou platforms. According to data released by the China Liquor Industry Association, as of August 2019, there are 1,175 liquor companies above designated size. The sales model of each liquor company is different. The distributors and retail terminals span multiple provinces. If the tax collection link is moved later, it will not only increase the difficulty of collection and management, but also the time cost and economic cost of collection and management will significantly increase.

#### **3.2.2 Refined Oil: Centralized Tax Sources**

China began to levy a refined oil consumption tax in 1994. The object of the refined oil consumption tax is mainly motor gasoline and aviation gasoline, and these refined oils are generally provided at the corresponding gas stations in various places, that is, the refined oil consumption tax. It will be levied in the retail sector, and ultimately comes from the fiscal revenue of local governments, that is, the tax source is relatively concentrated and not scattered.

Refined oil is a refined product of gasoline. The taxation of refined oil reduces the collection of production links, that is, the collection of consumption tax is reduced, and the workload of taxation is reduced. That is, the cost of collection and management of refined oil is reduced. Compared with tobacco and alcohol products, the tax sources are relatively concentrated and the collection links are relatively small, so the cost of collection and management of refined oil is lower. After the fuel tax reform, there has been an increase in consumption tax practice, and the tax source is controllable. Another core orientation of consumption tax is to strengthen the awareness of environmental protection and build a green tax system. Nitrogen oxides and sulfur oxides produced by the combustion of nitrogen and sulfur in refined oil are all environmental pollution sources. Therefore,

taxes, fees, prices and taxes are separated to consumers, and Consumers clarify "the prohibition on levy" and "who uses who pays" to raise consumers' environmental awareness.

### **3.3 Whether the Tax Source Is Regionally Transferable**

Alcoholic products can flow freely between regions. Liquor in China is mostly consumed in the economically developed eastern region, and the production is concentrated in the east and west. If the taxation of liquor products is moved down to the consumption link, it will bring about easy transfer of tax sources and tax avoidance. Liquor that can flow freely will seek tax depressions across the country, and it will be difficult to stabilize tax revenues across regions. Take the United States as an example: the top three states for comprehensive consumption tax are: Tennessee (9.55%), Louisiana (9.52%) and Arkansas (9.51%). However, some states in the United States implement exemption of consumption tax, such as Oregon, Delaware, Montana, and New Hampshire. People will be more inclined to shop from tax-free states to bring about the loss of tax sources in tax-bearing states.

With the development of online shopping and the rapid development of online channels to purchase liquor, the difficulty of tax collection and management will further increase. New retail platforms such as leading e-commerce companies in the liquor industry will further seize the offline market.

As a state-owned product, refined oil is basically fixed within a range of collection links, with fixed production links and fewer circulation links, that is, refined oil tax sources are more concentrated. At the end sales outlets, not only most of the gas stations of large state-owned enterprises, but also all local private gas stations need to obtain franchise licenses and strict inspections. In the refined oil industry, the number of companies is small, the brand is unified, and it is not easy to sell online. Most of the offline sales are sold. Consumers have fixed end sales outlets and the inspection is not difficult. Therefore, the tax source of refined oil is not easy to flow.

In short, changes in tax collection should take into account the dispersion and mobility of tax sources. Compared with refined oil, if liquor is collected in the sales link, the transfer of tax burden will be more obvious.

## **4. Conclusions and Policy Recommendations**

### **4.1 Suggestions for Reforming Liquor Categories**

From the above analysis, it can be concluded that the deviation between the place of production of liquor and the place of consumption is serious, and there are also scattered tax sources, easy flow of tax sources, high collection and management costs, and simple tax evasion. Therefore, transferring the consumption tax of liquor from the production end to the consumption end does not have an operational prerequisite, and the negative effects are greater than the positive outcome. In the end, it may deviate from the functional positioning of taxation when it is implemented.

It is recommended that the taxation of liquor should still be calculated in the production link. Later, as the economy develops, an additional consumption tax can be levied in the wholesale (or retail) link, and the additional tax can be regarded as a local tax. Changing the category of liquor to a consumption tax levied on two links can be followed by mature experience in foreign countries. "The United States, Australia, and Japan have all set tobacco taxes levied at the central and local levels. The Australian tax rate will also be adjusted twice a year (February and August) based on the Consumer Price Index (CPI)."

### **4.2 Proposals for the Reform of Refined Oil Products**

From the above analysis, the deviation between the production area and the consumption area of refined oil is not serious. At the same time, the tax source management is standardized, the tax source is not easy to flow, the collection and management costs are controllable, and the tax evasion inspection is simple. Therefore, the transfer of the consumption tax on refined oil from the production side to the consumption side has operational prerequisites and has certain positive significance.

First, the purpose of imposing a consumption tax on refined oil is to reduce the amount of refined oil used through the price mechanism, thereby protecting the environment. The consumption tax is levied

on the consumer side, turning the consumption tax into an extra-price tax. The prominence of the consumption tax allows consumers to understand the price composition of commodities, makes prices more sensitive, and reduces the consumption of refined oil to a certain extent.

Second, the consumption flexibility of refined oil is small, tax revenue is abundant and not easy to flow. In places where there is a lot of refined oil consumption, road traffic is more frequent. Changing the refined oil consumption tax to a local tax is more in line with the principle of benefit. It can directly increase local government fiscal revenues, give full play to government functions, and enable local governments to actively maintain roads and form a virtuous circle .

Third, the quality of refined oil is closely related to the refining technology of the refinery. Moving the consumption tax back can force the refinery to increase the level of refining from the consumer side to maximize resource utilization efficiency.

Fourth, to give local governments greater autonomy. The use of refined oil varies from province to province due to the different resource endowments of each province. It is important not to prevent reasonable demand across the board for environmental reasons. For example, all kinds of daily necessities in Xinjiang need to be transported out of the country. The local government can reduce the consumption tax on refined oil if it is necessary for automobile transportation. Beijing, Shanghai and Guangzhou can also levy excess consumption tax from the perspective of environmental protection and road congestion, avoiding unanimous national requirements and distorting the region. need.

In summary, the positive significance of the backward movement of the consumption tax on refined oil products outweighs its negative effects.

#### **4.3 The Reform of the Sub-regions under the Transfer Taxation Link Does Not Apply to All Items**

This article selects two typical consumption tax items for liquor and refined oil as examples, while other consumption tax items, such as jewelry, jewellery, jade, firecrackers, wooden disposable chopsticks, etc., are similar to liquor, so they should be treated differently due to the deviation of production and sales and the scattered tax sources. For reasons such as easy flow of tax base, etc., it is not suitable for the items to be moved backward. For example, cigarettes, cars, etc. may be moved backward as the main tax types of local taxes. Therefore, items should be carefully adjusted when the consumption tax reform is piloted, and the entire consumption tax reform should not target a complete direct consumption tax.

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