

➤ **Q: How consumption tax is assessed for taxable consumer goods sub-contracted for processing?**

A: The taxable consumer goods sub-contracted for processing refer to the taxable consumer goods which are processed with the raw materials and major materials supplied by the principals and for which the contractors only receive processing fees and supply part of auxiliary material for processing. For these taxable consumer goods, the tax shall be withheld by the contractors upon delivery of the goods to the principals.

In case of ad valorem basis, the tax may normally be assessed in line with the sales price of similar consumer goods of the contractors and the statutory tax rate. If the sales price of similar consumer goods is not available the tax shall be assessed according to the composite assessable value and the statutory tax rate.

The formula for computing the tax payable is as follows:

Tax payable = composite assessable value * applicable tax rate

Composite assessable value = (cost of material + processing fee)/(1-consumption tax rate)

Example:

An automobile factory sub-contracts a rubber factory for processing 2000 sets of auto tyres and supplies the rubber factory with rubber. The material cost per set of tyre is 120 yuan. The rubber factory charges 40yuan processing fee on each set of tyre and supplies for the auto factory the auxiliary materials of 20yuan. There is no comparable price for similar products. The applicable consumption tax rate is 10%. The amount of tax to be withheld for the factory should be computed as:

Composite assessable value = (120yuan + 40Yuan + 20 yuan)/(1-10%) = 200yuan

Tax payable = 200 yuan*2000*10% = 40000yuan

In case of compound computation method, the tax should be also based on the quantity of the taxable consumer goods recovered by the principals and by applying the statutory tax rate or tax per unit addition to the above methods.

In case of computation on quantity basis, the tax should be also based on the quantity of the taxable consumer goods recovered by the principals and by applying the statutory tax amount per unit.

Besides, the consumption tax payable on the gold and silver jewelry and pearls and jade stones sub-contracted for processing by consumers may temporarily be computed and paid on the basis of processing fees.

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