

Analysis on tax planning of S Liquor Industry Co., Ltd.

Boling Deng *, Yuan Tang

Sichuan University of Science & Engineering, Zigong643000, China

* Corresponding author: Boling Deng

Abstract: The baijiu industry faces intense competition, with the market transitioning from growth to saturation. Enterprises are shifting from high-volume production to quality-focused development, leading to increasing industry consolidation. Reducing taxes can create favorable conditions for sustainable business operations. As value-added tax (VAT), corporate income tax, and consumption tax constitute the main components of corporate taxation, this study analyzes these three taxes under current policies for S Liquor Company. It identifies existing shortcomings in tax compliance and proposes optimization strategies for these three categories. These measures aim to ensure S Liquor Company's long-term stable development while providing reference insights for tax planning of other liquor enterprises.

Keywords: Liquor industry; S wine industry; Tax risk; Tax planning.

1. Introduction

1.1. Research Background and Significance

For centuries, baijiu (Chinese liquor) has served as a cultural symbol of traditional China, maintaining its dominant position in the nation's alcohol consumption landscape. The industry has evolved through three distinct phases: a golden age of growth, a period of deep restructuring, and a phase of structural recovery, now entering a new era of high-quality development. Notably, competition patterns are undergoing fundamental transformation. Market dynamics have shifted from incremental expansion to strategic consolidation, with industry concentration steadily increasing. Data from the China Alcoholic Drinks Association reveals that the number of large-scale baijiu producers plummeted from 1,593 in 2017 to 989 by 2024, a trend continuing unabated. Concurrently, policy measures like "Restricting Official Expenditures" and "Intensified Alcohol-Related Driving Laws," coupled with heightened public health awareness, have driven continuous production declines. Statistics from the National Bureau of Statistics confirm that China's baijiu output has maintained an eight-year downward trajectory.

In this context, Chinese liquor enterprises are facing unprecedented survival pressures and development challenges. To sustain growth in the fiercely competitive market, companies must enhance their competitiveness, with tax planning directly impacting both market competitiveness and sustainable development capabilities [1]. Effective tax planning ensures efficient capital allocation across operational stages through strategic fund management, thereby improving overall corporate efficiency [2]. The critical issue now is how to optimize core competitiveness through management measures like tax planning, ultimately achieving sustainable development during the industry's transformation and upgrading process.

In China, the liquor industry faces significant tax burdens, primarily involving value-added tax (VAT), consumption tax, and corporate income tax. Moreover, varying tax policies across provinces create challenges for nationally operating liquor enterprises in implementing effective tax planning. By assisting S Liquor Industry Co., Ltd. in policy interpretation and strategic tax optimization, three key benefits emerge:

First, it helps reduce tax liabilities and unnecessary expenditures for S Liquor, thereby enhancing overall corporate value and fostering sustainable growth. Second, it provides actionable references for tax planning strategies in other liquor companies. Third, through lawful tax planning that balances legally compliant tax reductions with regulatory compliance, this initiative contributes to advancing China's tax governance framework.

1.2. Research Methods

1.2.1. Literature analysis method

This study employs literature analysis to examine policy documents and tax incentive measures for the Chinese liquor industry. Through systematic research using search engines like Wanfang and CNKI, we systematically identify relevant academic papers and journal articles. By synthesizing expert insights and scholarly findings, this work establishes a comprehensive framework for tax planning strategies in the S Liquor Industry.

1.2.2. Case analysis method

Taking S Liquor Industry Co., Ltd. as an example, the author analyzes the tax status quo of the enterprise, finds out its shortcomings and optimizes them, so as to get the tax planning ideas of S wine.

2. Related Concepts and Theoretical Basis

2.1. Concept of Tax Planning

Tax planning refers to the method where taxpayers, in compliance with laws and relevant tax policies, make reasonable arrangements for business operations, investment activities, financing activities, etc., to help enterprises achieve the goal of reducing tax burdens. It serves as a long-term strategy to minimize tax liabilities while considering corporate development. The core of tax planning lies in compliance and legality [3]. Unlike tax-saving, which also operates within legal boundaries but primarily aims to maximize post-tax profits, tax-saving may not be conducive to long-term enterprise development.

2.2. Principles of Tax Planning

The principles of tax planning are threefold: First, legality – tax planning must be conducted within legal boundaries. Second, proactive preparation – this ensures both sufficient time for implementation and compliance with regulations, as delayed planning could lead to tax evasion. Third, avoiding fraudulent invoicing – maintaining business authenticity while ensuring proper documentation alignment between funds, invoices, contracts, and goods.

2.3. Tax Burden Equilibrium Theory

In this theory, it is assumed that general taxpayers and small-scale taxpayers bear the same tax burden. The tax burden balance point is the value-added rate when the actual tax burden rate of general taxpayers equals that of small-scale taxpayers.

3. Current Situation of Taxation in S Liquor Industry Co., LTD

3.1. Tax Policy of Liquor Industry

VAT related policies

The VAT rate for general taxpayers in the liquor industry is 13 percent, and for small-scale taxpayers it is 3 percent.

Income Tax Related Policies

The enterprise income tax rate for liquor industry is 25%.

Consumption tax related policies

The consumption tax for the liquor industry is calculated using a 20% proportional rate plus a fixed quota of 0.5 yuan per jin (approximately \$0.05 per liter). When liquor manufacturers sell to distributors, if the manufacturer's consumption tax taxable price exceeds 70% of the distributor's retail price (including 70%), the tax authorities calculate taxes based on the retail price. However, if the manufacturer's taxable price falls below 70% of the distributor's retail price, the minimum taxable price is determined by the tax authority within a range of 50% to 70% of the distributor's retail price. For large-scale enterprises with higher profit margins requiring minimum taxable price determination, the tax authority generally sets the price range between 60% and 70% of the distributor's retail price.

3.2. Basic Information of S Liquor Industry Co., LTD

Introduction of S Liquor Industry Co., LTD

Founded in 1995, S Liquor Industry Co., Ltd. is the third listed company in the liquor industry with stock code: 600702.SH. It is known as one of the "Six Golden Flowers" of Sichuan liquor. Headquartered in Shehong, Sichuan Province, it is a well-known liquor manufacturing enterprise specializing in the design, production and sales of liquor products.

Development history:

October 01,1940 — The winery was formally established.

In January 1980, Tuopai Qujiu won the title of "Famous Wine of Sichuan" at the second Sichuan Wine Evaluation Conference.

In 1989, — Tuopai Qujiu won the gold medal at the fifth National Wine Evaluation Conference.

In the early 1990s, — Tuopai Qu Brewery implemented the modern enterprise system reform.

In 1994, — Tuopai Qu Brewery became one of the 100 pilot enterprises of modern enterprise system in China.

In 1995, — established Tuopai Group Co., LTD.

In 1995, — Tuopai Group publicly issued shares to the society.

In May 1996, — "Tuopai Shares" was listed on the Shanghai Stock Exchange.

In 1997, — Tuopai Group became one of the 37 expanding enterprises in Sichuan Province.

In October 2009, Tuopai Group won the national Quality Award.

November 2012 — "Taian Workshop" was included in the tentative list of China's World Cultural Heritage.

In June 2008, "Traditional Brewing Skills of Tuopai Qu Wine" was rated as the "second batch of Intangible Cultural Heritage".

In October 2009, Tuopai Group won the national Quality Award.

In September 2015, — "Tongzhihu" won the first place in the Grand Gold Award of the International Spirits Competition in Brussels, Belgium. Shede and Tuopai products won two gold awards and two silver awards respectively.

June 2016-S Wine industry completed the enterprise restructuring.

From December 31,2020 to now, Fosun Group has taken over Tuopai Shede.

Tax status of S Liquor Industry Co., LTD

Table 3-1. Profit Statement of S Liquor Co., LTD. (Unit: 10,000 yuan)

	2024.12.31	2023.12.31	2022.12.31	2021.12.31	2020.12.31	2019.12.31	2018.12.31
gross revenue	535706.91	708744.68	605552.56	496926.65	270366.98	265012.28	221229.99
Total operating costs	477947.76	483530.14	389094.39	332452.68	194171.3	194012.02	182268.17
operating profit	56764.32	230164.36	223551.95	167435.49	76827.39	71196.15	44234.32
total profit	51356.40	232774.58	224612.19	168465.66	80094.89	70702.91	44067.83
income tax	17314.98	55736.35	54562.08	41393.64	19368.32	16865.61	6778.65
Net profit belongs to the parent company	34577.45	176939.03	168544.19	124565.45	58113.52	50791.03	34177.76

S Liquor Industry Co., Ltd., a publicly listed company, has demonstrated consistent revenue growth from 2020 to 2023 as reflected in its financial statements. Correspondingly, the company's tax liabilities have increased annually, with corporate income tax rising steadily over the years. The fiscal year 2024 saw both revenue and income tax declines, while

consumption taxes continued to rise through calculations. These escalating tax burdens may impact the company's financial health, making strategic tax planning essential. Notably, on September 28,2020, the company's CFO was subject to compulsory measures by law enforcement for suspected breach of trust and corporate interests, which

adversely affected its tax compliance. Within China's liquor industry, S Liquor's tax burden ranks moderately high compared to peers, aligning with its market position. Implementing effective tax optimization strategies could significantly enhance its operational efficiency and financial stability.

4. There are Deficiencies in the Taxation of S Liquor Industry Co., LTD

4.1. There are Deficiencies in The Current Situation of VAT Tax Planning

4.1.1. The selection of tax payment time needs to be optimized

According to industry reports, S Liquor Industry Co., Ltd. determines its tax payment timing based on contract execution status and payment methods, with different tax calculation periods for lump-sum payments versus installment or credit sales. Under Article 38 of the Provisional Regulations on Value-Added Tax Implementation Rules, credit sales and installment payments trigger tax liabilities on the agreed payment date in written contracts. For contracts without a specified payment date, the liability occurs on the goods dispatch date. Lump-sum payments incur tax obligations when either the payment is received or the invoice is issued first. However, the company's business departments lack sufficient understanding of how payment methods affect tax obligations, often signing contracts without thorough consideration of these factors, thereby creating opportunities for tax planning maneuvers.

4.1.2. The selection of taxpayer identity needs to be optimized

S Liquor Industry Co., Ltd. is a general taxpayer with a 13% VAT rate, while small-scale taxpayers pay only 3%. Under the same tax base, companies paying at the 13% rate end up paying 10% more in annual taxes than those using the 3% rate.

4.1.3. The selection of invoice types for purchasing agricultural products needs to be optimized

The raw materials of liquor are mostly grains, and most of its costs come from agricultural products. When purchasing grains from small-scale taxpayers in production bases, enterprises can ask for general invoices from sellers or apply to tax authorities for special VAT invoices. The two types of invoices have different tax calculation methods, so the specific choice needs to be calculated and concluded.

4.2. There are Deficiencies in the Current Situation of Income Tax Planning

4.2.1. Inadequate tax planning for fixed assets

Fixed assets incur depreciation that generates tax liabilities. Shede Brewery employs straight-line depreciation, but its production equipment operates under prolonged high-temperature and humid conditions with limited service life, making this method unsuitable for the company and resulting in insufficient cost deductions. Additionally, since S Brewery conducts annual mid-year maintenance on production facilities, expenses incurred during downtime can be partially claimed as routine repairs if meeting specific criteria. However, capital improvements to fixed assets cannot be deducted before taxes. This gap highlights Shede's lack of effective tax planning strategies in this regard.

4.2.2. Inadequate tax planning for public welfare donations

As a large wine company, Shede is also actively undertaking social responsibilities by donating goods directly or purchasing goods. However, the tax and fees brought by these two forms of donation are different. Donating goods through purchasing goods will be regarded as sales and generate VAT. The enterprise lacks tax planning for donating money or goods.

4.2.3. Under the same conditions, preferential recruitment of tax preferential personnel shall not be given

It is understood that the staff of S Liquor Company have little knowledge of financial knowledge, and they rarely consider the tax benefits brought by the recruited personnel in the recruitment process, which will increase the tax burden of the enterprise to a certain extent. Even under the same conditions, they do not give priority to the recruitment of personnel with tax benefits.

4.3. There are Deficiencies in The Current Situation of Consumption Tax Payment Planning

4.3.1. Deficiency in the selection of production mode

The output of S Liquor is large, which has two kinds: self-processing and commissioned processing. The commissioned processing is paid by the entrusting party, while the self-processing is paid by itself. 60% of S Liquor is self-processing, so there is still room for optimization in the choice of processing mode.

4.3.2. The packaging and liquor are not taxed separately

Some companies are willing to sell wine bottles, bottle caps and outer packaging without separate pricing, and calculate tax together with liquor. The price of packaging is disguised to increase the consumption tax taxable price of liquor, while liquor is taxed on both ad valorem and specific basis. Therefore, the consumption tax amount of companies is increased to a certain extent, and there is some space for tax planning in this respect

4.3.3. There is no sales organization with independent accounting

Since S Liquor does not set up an independent accounting sales agency, it needs to bear all the consumption tax by itself, which is heavy and has some space for planning.

5. Optimization Ideas of Tax Planning for S Liquor Industry Co., LTD

5.1. Optimization of VAT Tax Planning

5.1.1. Optimization of tax payment time point selection

Tax payment deadlines should be postponed as much as possible. Although tax obligations will still arise, deferring payments won't reduce the actual tax amount. However, by delaying tax liabilities, companies can better leverage the time value of money, thereby reducing their tax burden. Generally, there are two approaches to postponing tax payments: First, companies can delay shipments or invoicing dates to capture the time value of money; second, when signing contracts with clients, they should explicitly specify payment terms and set later collection dates whenever possible.

5.1.2. Optimization of taxpayer identity selection

To calculate the tax burden equilibrium point using the tax burden equilibrium theory, if the actual value-added rate exceeds this threshold, enterprises should opt for small-scale taxpayer status to pay VAT. For general taxpayers, they can achieve this by establishing several independently accounted small-scale taxpayer entities. Conversely, when the actual value-added rate falls below the equilibrium point, businesses should maintain their general taxpayer status for tax compliance.

5.1.3. Optimization of the selection of invoice types obtained when purchasing agricultural products

Enterprises may obtain ordinary invoices from suppliers or request tax authorities to issue VAT special invoices on their behalf. For instance, if S Liquor Company purchases 600,000 kilograms of grain (at 10 yuan/kg excluding tax) from Company A (a small-scale taxpayer) for liquor production, with all purchases used in the current period, and adopts the input-output method for agricultural product procurement under the verified deduction policy (deduction rate: 10%), the applicable VAT deductible amount would be calculated as: $600,000 \times 10 \times 10\% (1 + 10\%) = 545,500$ yuan. However, if requesting an ordinary invoice, the deductible amount becomes $600,000 \times 10 \times 3\% = 180,000$ yuan. This demonstrates a 365,500 yuan difference in deductible input tax between ordinary and special invoices. Therefore, liquor enterprises should always obtain ordinary invoices when purchasing agricultural products from small-scale taxpayers to avoid having tax authorities issue special invoices on their behalf.

5.2. Optimization of Income Tax Planning

5.2.1. Optimization of tax planning for fixed assets

Wine production facilities often operate under prolonged high-temperature and humid conditions, resulting in shorter equipment lifespans. The straight-line depreciation method proves less suitable for such enterprises, making accelerated depreciation a viable option that increases depreciation expenses in the initial years. By adopting accelerated depreciation, companies can quickly amortize asset costs within a short timeframe, thereby reducing annual pre-tax profits and tax liabilities. Additionally, businesses should maintain depreciation rates below 20% to minimize corporate income tax obligations.

5.2.2. Optimization of tax planning for public welfare donations

We are willing to donate 5 million yuan to support non-profit organizations, and the input tax is 200,000 yuan. We can choose either direct donation or purchase corresponding products.

Plan 1: Direct donation

5 million yuan is less than 12% of the profit of the year, and the outflow of funds is $5 \text{ million yuan} \times (1 - 25\%) = 3.75$ million yuan.

Plan 2: donate goods

This donation method should therefore be treated as a sales transaction under tax regulations. The VAT generated from the physical goods amounts to $500 \times 13\% - 20 = 45,000$ yuan. Since no fees are charged for such donations, output VAT cannot be claimed (i.e., 650,000 yuan). Consequently, the company's income tax would decrease by $(500 + 65) \times 25\% = 1,412,500$ yuan. Under this arrangement, the outflow of funds is $500 + 45 - 141.25 = 403.75$ million yuan. Comparing Plan 1 and Plan 2 reveals that Plan 1 incurs lower

income tax payments, making direct donation the preferred option for charitable purposes

5.2.3. Under the same conditions, priority should be given to recruiting personnel with tax benefits

Under China's current tax policies, enterprises hiring specific groups qualify for additional pre-tax deductions or tax exemptions. For example, when employing retired soldiers, impoverished individuals, or disabled workers, companies can claim fixed annual deductions ranging from 6,000 to 9,000 yuan per person when calculating taxable income (as stipulated in the "Notice on Further Supporting Tax Policies for Self-employed Retired Soldiers' Entrepreneurship and Employment" [Cai Shui [2019] No.21]). As a labor-intensive manufacturing enterprise, S Liquor Industry prioritizes recruiting such personnel in entry-level positions. This approach not only fulfills social responsibilities but also achieves significant tax-saving benefits.

Specifically, if S Liquor Company hires 10 retired soldiers annually, applying the annual deduction standard of 9,000 yuan per person would reduce taxable income by 90,000 yuan. Calculated at a 25% tax rate, this could directly save 22,500 yuan in taxes. This tax planning approach offers dual advantages: First, it requires minimal policy compliance—simply meeting basic conditions like labor contract signing and social insurance contributions. Second, the benefits accumulate proportionally—the larger the recruitment scale, the more significant the tax savings. Notably, companies must establish appropriate job-matching mechanisms to avoid compromising operational efficiency for tax incentives. By integrating tax planning into human resource strategies, S Liquor can achieve dual improvements in corporate value and social benefits while remaining legally compliant.

This also requires relevant staff to be able to timely understand the national preferential tax policies. Enterprises can establish a learning platform for tax policies to urge relevant personnel to learn and constantly improve the professional skills and quality of employees in tax [4].

5.3. Optimization of Consumption Tax Payment Planning

5.3.1. Optimization of production mode selection

When making production decisions, Chinese liquor enterprises can optimize consumption tax planning by selecting different manufacturing methods. Currently, the two primary production approaches adopted are self-production and contract processing, with contract processing further divided into semi-finished product processing and finished product processing. Contract processing of high-proof liquor produces the highest calculated consumption tax and results in the lowest post-tax profit. However, when processing alcohol or finished liquor through contract manufacturing, the tax-saving effect remains equivalent to self-production. Therefore, liquor enterprises should rationally compare the tax-saving effects and economic benefits of various production methods during decision-making. If choosing contract processing, they should opt for direct finished product processing to avoid double taxation caused by semi-finished product processing.

5.3.2. The packaging and liquor shall be taxed separately

The baijiu industry faces excessive packaging practices, with packaging costs constituting a significant portion of sales revenue. According to Chinese tax regulations, when taxable

consumer goods are sold with packaging materials, consumption tax must be included in the product's sales value regardless of accounting methods. Baijiu manufacturers could consider selling packaging materials separately from liquor to distributors. Since packaging sales are exempt from consumption tax, this approach helps reduce tax burdens. However, strict compliance with separate sales procedures is crucial, as tax authorities may deem such practices tax avoidance attempts.

5.3.3. Set up a sales organization with independent accounting

Establish an independently accounted sales company to sell manufactured goods at lower prices. However, tax regulations stipulate that the price sold to this sales company must not be less than 70% of the non-VAT price when the sales company conducts external sales. Under these conditions, companies can reduce taxable sales revenue to decrease consumption tax obligations. This approach lowers the overall consumption tax burden while maintaining unchanged VAT rates.

6. Conclusion

In the fiercely competitive liquor industry, tax planning can help S Liquor Industry Co., Ltd. reduce annual tax payments, boost working capital, and create more business opportunities.

Through analyzing its three major taxes—consumption tax, corporate income tax, and value-added tax—the author proposes tailored tax optimization strategies. These measures could significantly lower the company's annual tax burden while ensuring sustainable growth. However, due to limited expertise and insufficient public disclosure of corporate information, current tax planning approaches still require refinement. The author anticipates deeper exploration in this area in future research.

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