Tax Policy in Limiting the Consumption of Luxury Goods

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Abstract: This literature review explores tax policy in reducing or limiting the consumption of luxury goods. This exploration has crucial theoretical and practical significance with the rapid development of the economy and technology, in which the income level of the people has increased rapidly. Excessive consumption of luxury goods will have a negative impact on the country's economic development. This is because inequality is widening, income is reduced, social equality is lost, and the demand for domestic goods will weaken. These issues will later cause widespread public concern. The policy to reduce or limit the consumption of luxury goods marked by an increase in consumption outflows is the adjustment of taxes on luxury goods. As one of the macroeconomic control policies taken by the government, the adjustment of tariffs, income taxes, and consumption taxes on luxury goods has proven to be effective in controlling the demand for luxury goods. Several international studies have obtained a fairly in-depth analysis of this issue from a tax policy perspective. This study attempts to explore the international research literature on tax policy in limiting the consumption of luxury goods.

Keywords: Consumption Tax, Tax Rate, Consumer Behaviour, Luxury Goods.
JEL Classification: Q58; E62; C91; M31.

1. INTRODUCTION

Before studying how tax policy influences the consumption of luxury goods and how the effect of increasing or decreasing tax rates on the economy, we need to study the definition of luxury goods first. "Luxury" comes from the Latin "Luxuso" (Luxus). Luxury can be interpreted as "expensive" and can make people feel taller and feel good. Academic research into luxury began in 1776 when Adam Smith divided consumer goods into two conflicting goods. Adam Smith argued that "goods that are needed by consumers" are goods essential to life; apart from that, they are called "luxury goods".

People's perception of luxury is closely related to the economic concept of price elasticity: (Kemp, 1998). In economics, luxury goods are goods that have an income elasticity of more than 1 (IE>1). The demand for this good is sensitive to changes in consumer income. When income increases x%, its demand will increase by more than x%. In this case, individuals not only have high income or consumption but also want to have more than others by consuming luxury goods, so that they occupy a higher relative position in society (Carlsson et al., 2007).

In the Indonesian Value Added Tax (VAT) Law, the consideration of an item subject to Luxury Goods Sales Tax (LGST) is the fairness of tax imposition between low-income consumers and high-income consumers. LGST is a tax imposed on goods classified as a luxury to producers to produce or import goods in their business activities or work.

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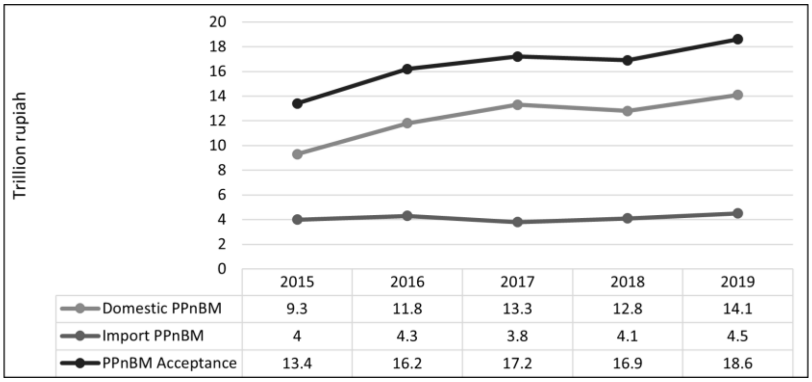
During the 2016-2020 period, consumption of luxury goods in Indonesia tends to be stable and rising; this condition is reflected in the luxury goods sales tax revenue (Fig. **1**). The Directorate General of Taxes, Ministry of Finance, noted that the realization of LGST in 2019 increased by 10.06% percent from 16.9 trillion rupiahs to 18.6 trillion rupiahs. Based on Figure 1, it can be seen that the consumption growth of the foreign market for luxury goods tends to be more stable than the domestic market. This can be seen from the realization of LGST Imports which is more stable with an upward trend.

Global Research HSBC Bank Indonesia explained, based on a geographical perspective, in 2050, there will be massive growth of the middle-class population in Asia, including Indonesia. In the future, rich people in Indonesia from this group will have different needs, such as health, education, and communication, that are different from today. In his official statement at Kumparan NEWS, on 28 November 2017, the President Director (designate) of PT. HSBC Indonesia Bank Sumit Dutta said: "They are consumers of expensive products that are imported through a solid infrastructure". Therefore, the government and business actors must work together to create an environment in which welfare is equitable and ensure that the people are educated and trained (Dutta, 2017).

Excessive spending made by one person on luxury goods can encourage others to allocate a large amount of money to consume the same luxury goods. This, of course, results in unnecessary competition, and those who fail to do so can suffer financial losses. A person's talent level is typically reflected in his income, which is linked to his capacity for consumption. Consuming costly items can therefore indicate a high degree of aptitude. (Frank, 2001). Individuals who



	2015	2016	2017	2018	2019
Domestic PPnBM	9.3	11.8	13.3	12.8	14.1
Import PPnBM	4	4.3	3.8	4.1	4.5
PPnBM Acceptance	13.4	16.2	17.2	16.9	18.6

Source: Ministry of Finance Indonesia, Annual Development of VAT and LGST (2015-2019).
Fig. (1). Development of Sales Tax on Luxury Goods (LGST).

consume luxury products but do not fulfill minimum income and consumption norms not only incur money losses but may also experience negative psychological and physiological effects, such as life unhappiness (Ferrer-i- Carbonell, 2005; Luttmer, 2005). The high level of stress and the increasing supply of labor with the aim of earning more income in order to increase the possibility of consumption of luxury goods will result in a decrease in health levels (Akay *et al.*, 2019; Dubois *et al.*, 2021; Jones & Wildman, 2008; Mangyo & Park, 2011).

John Stuart Mill, in his book entitled: "Principles of Political Economy" published in 1848, argued that most of the expenditure of the largest upper and middle classes was for pleasure, such as consuming luxury goods, and if taxation could prevent it, then some good can be done. Conspicuous and symbolic consumption behavior clearly drains income, which is why Veblen (1899) proposed government intervention to limit it. The government (welfarist) should increase the marginal tax rate to internalize the externality of consumption of luxury goods (Kanbur & Tuomala, 2013).

This research will generally explore tax policies in limiting the consumption of luxury goods. This exploration has a theoretical and practical significance which is very important in the rapid economic and technological development, where the income level of the people has increased rapidly. Excessive consumption of luxury goods will have a negative impact on the country's economic development. This is because inequality is widening, income is reduced, social equality is lost, and the demand for domestic goods will weaken. These issues will later cause widespread public concern. Therefore, the imposition of taxes is the main instrument taken by the government in limiting the consumption of luxury goods.

The context and driving forces for the research are discussed in the first portion of this essay's structure. The methods used to address the research objectives will be explained in the second section. A summary of the literature on the study of the reasons why people buy luxury products can be found in the third part. In the fourth portion, the discussion will be explained. The research is wrapped up in the final portion.

2. METHODS AND DATA

This literature evaluation starts with a basic bibliometric analysis by looking for papers employing certain keywords, “tax; tax rates; request; consumption; consumer behavior; and luxury goods”, research years 2000-2021, and limiting 50 articles. Luxury goods generally are imported goods. Government intervention in the form of taxation is the most effective instrument in reducing the consumption of luxury goods. The imposition of taxes on luxury goods has not only been shown to reduce consumption of luxury goods but also increase welfare. Studies on government intervention in the form of tax policies to reduce the consumption of luxury goods are still lacking in Indonesia. This research has a very important theoretical and practical significance with the rapid development of the economy and technology, in which the income level of the people has increased rapidly. This study is expected to contribute to the body of knowledge on how tax policy influences the purchase of luxury items.

The study's methodology is a meta-synthetic literature review. Scopus, Web of Science, Elsevier, Springer, Emerald, Asian Journal, Japan and The World Economy Journal, International Journal of Advanced Research (IJRAR), and Proceedings of the World Business and Social Science Research Conference were reviewed for their literature. Taxes, tax rates, requests, consumption, consumer behavior, and luxury products are the search terms or keywords used. Limitations on the publication or study year 2000–2021 and the search for English-language articles. The research objectives will be addressed through article extraction when the most pertinent articles have been identified. The definitions created in the fields of luxury goods, consumer behavior, and tax policy serve as the foundation for the theoretical framework that will be established. The main focus of this study is how tax laws can be used to reduce the consumption of luxury items.

3. MOTIVATION ANALYSIS OF CONSUMPTION OF LUXURY GOODS

Knowledge consumption motive leads to better understanding of consumer behavior. The motivation to consume luxury goods was first put forward by Veblen (1899), that the rich buy personal luxury products with the aim of showing off expressing the status of power, honor, and success. The significance of social class and occupation in the consumption of upscale goods, Mason (1992) offers a social orientation reason for consuming upscale items. Luxury products are thought to elevate their owners' status and self-esteem (Vigneron & Johnson, 2004). Therefore, it may be claimed that luxury items can boost the utility of psychological demands in addition to their functional value. (Vigneron & Johnson, 2004).

Luxury or high-end products are distinctive and sustainable because they have the potential to last longer than cheaper alternatives. Despite the inherent longevity of high-end products, sustainable luxury can seem counterintuitive to consumers because many of them don't pay attention to it. Many luxury companies are becoming more determined in their efforts to embrace sustainability in response to growing concerns about sustainable consumption (Sun et al., 2021). Consumers when they decide to buy luxury goods are for their own experience and pleasure (Shahid & Paul, 2021). The desire to buy luxury goods is determined by the literature on the advantages of a particular brand, and this will be closely related to signaling status (Aw et al., 2021).

Consumption is strikingly positively and significantly correlated with collectivism and materialism (Zakaria et al., 2021). Individuals solely consider their position in the distribution of luxury good consumption on an ordinal scale (Hopkins & Kornienko, 2005). Individuals in consuming luxury goods will compare themselves with those closest to them, namely neighbors, friends, relatives, acquaintances, and colleagues (Ghiglino & Goyal, 2008). People are concerned with the difference between the amount of luxury products they consume and the amount consumed by other people in their network group (Bilancini & Boncinelli, 2012; Clark et al., 2008).

When determining how customers perceive luxury and describing consumer behavior involved in acquiring luxury items, interpersonal elements like conceit and arrogance, personal factors like hedonistic and perfectionist motives, and situational considerations are all heavily taken into consideration. Consumed luxury goods represent the value of individuals and their network groups, because luxury goods are considered as prestigious brands and goods of the highest level of physical and psychological value (Wiedmann et al., 2007).When examined from the standpoint of individual self-improvement and self-verification, several studies conducted in China discovered that arrogance, superiority, and self-actualization are particularly significant in encouraging consumer purchases of luxury products (Congshan et al., 2018; Ying et al., 2011; Zhang & Wang, 2019).

Recent research from within the country conducted by Asprilia & Hami (2021) reveals that the majority of Indonesian buyers of luxury products do so to elevate their social and quality status. This study also relates to the values of each culture, the differences in the dominant value patterns that appear according to the values held by each ethnic group. The results show that the three largest cultures that use branded bags in Indonesia are Javanese, Sundanese, and Minangkabau. Based on the three cultures, financial value is the dominant value in shaping the perception of luxury value.

Consumer behavior of luxury goods is also determined by differences in status and gender (Altintas & Heischmidt, 2018; Chen et al., 2006; Gul, 2013). Studies conducted by Chen et al. (2006) and Gul (2013) shown that women are more likely than males to have positive attitudes and stronger willingness to buy luxury products. Differences in motivation for purchasing luxury goods are also influenced by gender. While men purchase luxury items to gain the attention of women, women do so to frighten other women and to safeguard their romantic ties with men. In particular in the new-luxury sector, young consumers have a considerable impact on the rise of luxury spending globally. Based on 3M's Personality and Motivation Model, reveals that consumption of new luxury goods is influenced by competition and the need to understand personality traits (Barrera & Ponce, 2021).

It may be argued, based on the examination of the literature above, that the consumption of luxury items places more focus on income and individual elements including self-oriented motivation, competition, conceit, facial social standing, flaunting, and socializing.

4. RESULTS AND DISCUSSION

4.1. Government Intervention in the Form of Tax Policy to Limit/Reduce the Consumption of Luxury Goods

Literature on the behavior of consumption of luxury goods, including the model, has been done quite a lot in several countries in the world, such as: European countries, the United States, and China. However, research on government policies in the form of tax instruments to limit the consumption of luxury goods has not been widely carried out, especially in Indonesia. Most of this literature limits its study of behavior and factors that influence the consumption of luxury goods and very little on government intervention in the form of tax policies to limit the consumption of luxury goods.

The consideration of an item is subject to LGST in Article 5 of the Value Added Tax Law (VAT), which is comprised of the following clauses: fairness of tax imposition between low-income and high-income consumers; regulation of the consumption of luxury goods; protection of small or traditional producers; and preservation of state revenues. As the primary weapon of policy to lessen the harm brought on by worries over the consumption of luxury items, taxes on income and consumption have been supported.

To evaluate the efficiency of taxes as a tool for limiting the consumption of luxury goods, Antinyan et al. (2020) ran a test at the Experimental Economics Laboratory of Liverpool's Xi'an Jiaotong University. Random computer assignments placed participants in groups with roles that stayed the same or did not vary during the experiment. Participants were required to read the instructions and then respond to a series of questions. The experiment doesn't move forward until everyone has given accurate answers to every inquiry. In total, 260 participants took part in this investigation. The results show that government intervention in the form of taxation is the most effective instrument in reducing consumption of luxury goods. In addition, the effect of taxes in reducing the consumption of luxury goods is also stable.

Consumers of luxury goods are arrogant and rich people so that luxury goods should be taxed more heavily (Ying et al., 2011). The imposition of a well-designed income tax can limit the willingness of individuals to increase the supply of labor and the possibility to discriminate against other individuals who have different levels of position (Gallice, 2018). Most individuals pay attention to the relative income and relative consumption of certain goods; therefore, the imposition of much higher taxes on luxury goods can reduce the consumption of these goods (Alpizar et al., 2005). The imposition of progressive consumption taxes can directly correct destructive consumption behaviors (Frank, 2001, 2008). Research on luxury goods conducted by Heffetz (2011) tries to sort different items by level of position. Estimates from this research can be a guide for the government in making policies regarding how much consumption levels should not be taxed for each item.

Research conducted by Gelardi (2012), by examining shopper habits in the UK and Canada. The purpose of this study is to ascertain whether any rise in the luxury goods sales tax has an impact on retail. In order to depict and examine consumer behavior in the UK and Canada, this study makes use of graphs. The findings indicate that when the luxury sales tax is implemented and when the luxury sales tax rate is adjusted, people prefer to save more and consume less.

Domestic research conducted by Kasim (2020) demonstrates that consumer spending has significantly decreased both before and after the imposition of higher tax rates on luxury goods. This study demonstrates how consumers engage in arbitrage by changing their behavior in response to the new, higher rates. This study looked at how sales taxes on luxury products affected consumer expenditure on motorized vehicles. Utilizing current statistical data as well as additional supporting data, this study approach is quantitative. The government, particularly the Directorate General of Taxes, financial institutions, and taxpayers are all expected to benefit from this research as it serves as study material for the sales tax on luxury products.

4.2. Impact of Taxation of Luxury Goods On Increasing Welfare

Under the VAT and LGST Laws, the government is authorized by law to impose LGST on goods classified as luxury (Center for State Revenue Policy, 2010). LGST is a tax used by the government to collect taxes from people who have relatively high purchasing power so as to create a balance because LGST taxes are not imposed on those with low incomes. In addition, the government also uses LGST tariffs to control public consumption patterns of goods classified as luxury, as well as to protect domestic producers from the invasion of imported luxury BKP.

Regulations and policies are a more likely way of distributing needs equitably between rich and poor than market systems that encourage producers to produce more or develop new products to meet the same needs (Kemp, 1998). Government intervention in the form of imposition of consumption taxes is not only the most effective instrument in reducing consumption of luxury goods but also has an impact on improving the welfare of life (Antinyan et al., 2020). Research conducted by Hopkins & Kornienko (2005) found that the imposition of consumption taxes and appropriate subsidy schemes will increase welfare. The distribution of income will be more equitable as a result of the imposition of taxes and subsidies, and those with middle-class incomes will pay higher marginal rates of taxes and subsidies while those with high incomes will pay lower marginal rates.

Increasing the relative progressivity of consumption taxes will be able to change individual spending patterns, which in turn will result in greater welfare for consumers across all income scales (Frank, 2008). Furthermore, research conducted by Ahmed (2015) by examining a case study of how changing VAT regulations impact consumer behavior and satisfaction in the North Wales region. This case study can close a gap in the consumer literature. This study emphasizes the impact of VAT on the government, businesses, and consumers/customers from three perspectives. This survey included 80 respondents in total. Each questionnaire question's reliability was examined using a reliability test analysis. The findings indicate that customers' and consumption patterns are significantly impacted by the increase in VAT. Companies may experience problems in terms of sales and increase in revenue, because consumers/customers have to change their lifestyle, such as consumption habits. Consumers reexamine product prices after the increase. They can also decide what luxury goods they can still afford, as most luxury goods are subject to a VAT increase. The results also show that the increase in VAT is a good policy for the government to get more state revenue and to solve economic problems.

Research on the luxury car market in Indonesia conducted by Upa (2020) can give a general picture of how taxes affect Indonesia's luxury car market usage. Luxury cars are among the categories of items that are affected in society by tax elimination and reduction. There are those who support the government's policy and those who oppose it. This survey tries to ascertain the public's reaction to the reduction in the sales tax on luxury vehicles. A linear regression model and a questionnaire with 81 respondents were utilized in this investigation. According to the study's findings, the policy of lowering or removing the luxury sales tax on luxury vehicles can only enhance customer purchasing interest by 1%, with the remaining 99% being influenced by variables other than policy. It implies that the consumption of luxury cars is unaffected by the fall in tax rates. This is due to the fact that for Indonesians, luxury cars are still considered to be secondary necessities. All of Indonesia's high-end vehicles are imports. As a result, luxury cars are subject to multiple taxes, including income tax, value-added tax, import duties, and sales tax on luxury products. The government has increased the income tax rate on imported goods and import taxes, making it impossible for the government to lower or eliminate the sales tax on luxury items without also lowering the cost of luxury cars in Indonesia. Tax elimination and reduction may, to some extent, increase efficiency, but if they are implemented too severely, welfare will likely be reduced (Eggert & Sørensen, 2008).

4.3. Consumption and Income Tax Structure and Tax Reform

A tax system that considers and maximizes social welfare is the best tax structure. The ideal tax system places a higher tax rate on items that have a high complement of enjoyable goods and services, while placing a lower tax rate on items that have a high complement of enjoyable goods and services (goods that have substitutes for leisure). Tax rates are levied on advantageous and uniform goods and services as well as on products with a low cross-price elasticity of demand (all goods with a low cross-price elasticity of demand with favorable goods) (Hatta, 2004).

By describing and evaluating the past and present personal tax structures in Japan, Horioka & Sekita (2007) propose a number of policy suggestions for Japan's personal tax reform. They put out a set of proposals that would improve the fairness and effectiveness of personal taxes in Japan while also achieving fiscal reconstruction. Regarding the structure of the consumption tax, Horioka & Sekita (2007) proposes:

(1) increasing consumption tax rates on complementary leisure goods to implement regulations (Corlett & Hague, 1953).

(2) Increase the consumption tax rate while maintaining or leaving the tax rate on food and other basic needs (i.e., regular items) unchanged.

(3) Make the owner's inhabited housing, which is presently free from consumption tax, payable in calculated rent.

And Regarding the income tax structure, Horioka & Sekita (2007) proposes:

(1) Reintroducing tax benefits for saves will lessen the deterrent effect of income tax on savings (capital income).

(2) Increasing the income tax's progressiveness

(3) Tougher income tax enforcement (for example, by introducing a taxpayer identification number system, increasing the number of tax audits, and increasing the proportion of SPT audited).

Governments all around the world are looking into different strategies to redistribute wealth from the wealthy to the poor. Income tax reform achieves the best tax progressivity. The primary tool to combat this inequality is a progressive income tax, which also increases education subsidies and supports the public health system while improving access to health care. An ideal tax policy must balance the trade-off between the general equilibrium effect and the negative welfare effect of tax distortion on labor supply on the one hand, and the positive welfare benefit of redistribution on welfare on the other (Heer & Rohrbacher, 2021).

The Goods and Services Tax, or GST, was initially established in France, and today, hundreds of nations throughout the world use GST/VAT in one way or another. In order to provide all goods and services, the Goods and Services Tax (GST) is a tax reform for the consumption tax. GST will have a direct impact on all economic sectors, including large, medium, and small businesses, intermediaries, importers, exporters, merchants, professionals, and consumers (Bhushan, 2018).

The impact of GST and its effects on the Indian economy have been the subject of numerous research in India. The GST was introduced in India on July 1, 2017, with the intention of fostering and strengthening the nation's economic growth. Since India's independence, GST has played a significant role in the country's indirect tax system. GST is a tax reform that, by replacing all indirect taxes imposed on products and services by the Central and State governments, streamlining tax structures, lowering compliance costs, and digitizing, transforms the nation into "One Nation, One Tax, One Market."

According to research conducted in India, moving to GST has resulted in a significant improvement in the country's indirect taxation structure (Vasanthagopal, 2011). Generally speaking, GST will support the growth of the Indian economy and raise GDP (Chaurasia et al., 2016). The GST is a beneficial change to the indirect taxation system that will benefit consumers and producers by offering extensive coverage of input tax credit set-offs, service tax set-offs, and inclusion of some levies (Khurana & Sharma, 2016). The government will accept the GST tax structure in exchange for new changes. This tax structure will boost India's economic growth rate (Sunitha & Chandra, 2017).

GST is an indirect tax reform that streamlines the tax code for the nation. The former double taxing system's inefficiencies can be removed by the use of GST. GST is anticipated to boost compliance rates, bring about better transparency, and, from an economic standpoint, add India to the group of nations with simpler tax structures, luring in foreign investment (Bhushan, 2018). GST is a tax that is due when goods and services are supplied. GST must be paid by everyone who presents or supplies goods and services. This study emphasizes how GST has affected Indian SSIs. The GST contributes to the Indian economy, accounting for about 40% of industrial production, 42% of exports, and 66% of employment prospects, according to research findings. SSI is the dominant economic force in the nation (Mubarak & Suresh, 2021).

5. CLOSING NOTES

Study the luxury goods market in nations like Japan, Europe, and the United States to inform your tax planning. They pay attention to product characteristics and market demand and carefully select taxation systems and restrictions with tax rates that consider expansion characteristics and the outflow of luxury goods. Luxury products should be subject to tax in order to control consumption, advance economic growth, and enhance income distribution, welfare, and other economic purposes. The huge potential of domestic luxury companies must also be enhanced, and after that, the home market for luxury goods must play a bigger international role.

The economy and welfare will be improved by a fair tax system. A tax system that considers and maximizes social welfare is the best tax structure. By eliminating the inefficiencies of the previous double taxation system, the tax reform streamlines the state tax structure. It is anticipated to increase compliance rates, bring about greater transparency, and streamline the tax structure in order to attract foreign investment, which will ultimately improve the economy and welfare.

All facets of society are now paying attention to luxury goods consumption due to its growing popularity. The taxation system's role in addressing the issue of the rapid rise and exodus of luxury goods is the most crucial area of investigation. based on sources and summaries of research on luxury items. This article provides a concise overview of the meaning of luxury goods, the motivations behind their consumption, government intervention through tax policies to limit or reduce luxury goods consumption, the effect of taxing luxury goods on boosting welfare, the structure of consumption, and income taxes, and tax reform.

This article has several limitations, especially in describing methods and steps for reforming the tax system in the country. This article does not discuss the reform of the tax system in Indonesia, because the reform of the taxation system is a complex and deep engineering system. In addition, in taxation reform, the government has not specifically formulated the system and rules regarding luxury goods.

Based on the results of the exploration of the research literature that has been carried out, along with economic development, increasing people's income, and rapid technology, government policy in the form of imposing a tax on luxury goods is the best step to control public consumption, promote economic growth, and increase income distribution. welfare, and other economic goals.

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COMPETING INTERESTS

There is no competing interests in this manuscript.

CONTRIBUTION/ ORIGINALITY

The main contribution of this paper is to uncover the motives and motivations of the consumption of luxury goods. Government intervention in the form of tax policy to limit/reduce consumption of luxury goods. The impact of taxation on luxury goods on increasing welfare. And what is the structure of consumption and income taxes and tax reform. This paper can also be used as one of the macroeconomic control policies taken by the government, along with rapid economic and technological developments, where people's income levels have increased rapidly.

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