ATLANTIS PRESS
*Advances in Economics, Business and Management Research, volume 160*
**Proceedings of the International Conference on Business and Management Research (ICBMR 2020)**

# Influence of Sales Tax on Luxury Goods Increase on Consumer Spending of Motor Vehicles

Elsie Sylviana Kasim[1,*]

[1] *Tax Administration, Vocational Education Program, Universitas Indonesia*
[*] *Corresponding author. Email: elsiekasim@vokasi.ui.ac.id*

**ABSTRACT**
The purpose of this research is to analyse the influence of sales tax on luxury goods on consumer spending of motor vehicles. The research approach is quantitative by using existing statistical data as well as other supporting data. The results of the study indicate that there was a substantial decrease in consumer spending before and after the introduction of the higher tax rate for luxuries. This would indicate that consumers used arbitrage by adjusting their behaviour as a result of the new higher rate. This research is expected to provide input for the government, especially Directorate General of Finance Institutions, and also for taxpayers, as study material related to the sales tax on luxury goods. This research is expected to provide information and be a reference material in sales tax on luxury goods and provide an overview on the influence of consumer spending on motor vehicles.

***Keywords:*** *Sales Tax on Luxury Goods, Consumer Spending, Motor Vehicles*

## 1. INTRODUCTION

There are many reasons why people consume goods, one of the reasons is to maximize his/her level of happiness [1]. In this 'material economy' consumption could be significantly motivated by social rather than by functional consideration [2]. Goods that can maximize happiness and are motivated by social rather than by functional consideration are described as diamond goods. Diamond goods are goods that have no value apart from their price [3].

In Indonesia, diamonds goods are categorized as luxury goods subject to sales tax on luxury goods. When viewed from its definition in law, sales tax on luxury goods is a tax imposed on luxurious taxable goods. The meaning of luxurious taxable goods is a product that is not a staple goods, goods that are consumed by certain communities, goods that are generally consumed by high income communities, and/or goods that are consumed to show status. The purpose of sales tax on luxury goods is to create a balance of tax loading between low-income consumers and high-income consumers, controlling consumption patterns of luxurious taxable goods, providing protection to local producers and securing the State treasury. Sales tax on luxury goods is only collected once, namely when the submission by the manufacturer of luxurious taxable goods to the consumer and when imports luxurious taxable goods. It is different from value-added tax (VAT), which is collected many times on the chain of production and distribution.

The government raised the rate of sales tax on luxury goods on April 19, 2014 with the aim of maintaining a balance of tax loading between low-income consumers and high-income consumers. The rate of sales tax on luxury goods is divided into two, the rate of motor vehicles and the rate of non-motor vehicles. Sales tax on luxury goods rate imposition of motor vehicles is classified based on vehicle type, number of passenger carriage, and amount of machine capacity. There are 7 (seven) rates prevailing in the motor vehicle sales tax on luxury goods i.e. 10%, 20%, 30%, 40%, 50%, 60, and 125%. Previously the 7 (seven) rates of sales tax on luxury goods motor vehicles were 10%, 20%, 30%, 40%, 50%, 60% and 75%. But with the validity of Government Regulation Number 22 Year 2014 sales tax on luxury goods rate raised from the previous 75% to 125%.

Previous research by Gelardi [4] was conducted on consumers in the UK and Canada. According to Gelardi [4] when the tax rates were changed, consumers adapt their behaviour to take advantage of the changes. Luxurious goods or diamonds goods are taxed with no excess burden or no burden at all. The purpose of this research is to know whether any increase in the rate of sales tax on luxury goods has any effect on the Retail

Copyright © 2020 The Authors. Published by Atlantis Press SARL.
This is an open access article distributed under the CC BY-NC 4.0 license -http://creativecommons.org/licenses/by-nc/4.0/.

Volume Index. Does the increase in sales tax on luxury goods have an impact on consumer spending?

## 2. LITERATURE REVIEW

In the preparation of the study entitled "Influence of Sales Tax on Luxury Goods Increase on Consumer Spending of Motor Vehicles", the researcher uses four other research results that have relevance to the theme raised by the researcher and at the same time become a reference in the preparation of research.

The first research that became a reference is an international journal titled Journal of Happiness Studies year 2020 by Vishal Chandr Jaunky, Jamiil Jeetoo, and Shreya Rampersad, title "Happiness and Consumption in Mauritius: An Exploratory Study of Socio Economic Dimensions, Basic Needs, Luxuries and Personality Traits". This paper describes one of the reasons why people consume goods is to maximize his/her level of happiness. Material consumption and happiness are strongly connected. Due to demographics changes and dynamic lifestyles in developing country, consumption patterns have altered drastically

The second research that became a reference is an international journal titled Managerial and Decision Economics year 2000 by Roger Mason, titled "Conspicuous Consumption and the Positional Economy: Policy and Prescription Since 1970". This paper describes this 'material economy' consumption could be significantly motivated by social rather than by functional consideration. Consumer expenditures have increasingly been caused by society's growing captivation in style, identity, social standing and prestige based, in this case the conspicuous consumption of status-conferring goods and services.

The third research that became a reference is an international journal titled Social Choice and Welfare year 2011 by Per Engström, titled "Bling bling taxation and the fiscal virtues of hip hop". This paper describes a diamond good as a good that has no value apart from its price. The opposite, which is diaper goods, are all common goods that are valued purely for its practical purpose. Diamonds goods are excellent for taxation because it has no excess burden or no burden at all.

The fourth research that became a reference is an international journal title Asian Journal of Finance & Accounting year 2013 by Alexander M.G. Gelardi, title "VAT and Consumer Spending : A Graphical Description Analysis". This paper describes that individuals tend to save more and consume less when a consumption tax replaces an income tax. Consumers tend to adjust their buying behaviors, when a VAT is introduced, and when the VAT rate is changed.

These papers offer insights on factors that affect consumer spending on luxurious goods. These factors include to maximize his/her level of happiness and consumption motivated by social rather than by functional aspects. Luxurious goods or diamonds goods are taxed with no excess burden or no burden at all. In the present study, the researchers tried to analyse the influence of sales tax on luxury goods increase on consumer spending of motor vehicles in Indonesia. Does the increase in sales tax on luxury goods have an impact on consumer spending?

## 3. RESEARCH METHODOLOGY

### *3.1 Research Question*

To determine whether any increase in the rate of sales tax on luxury goods has any effect on the Retail Volume Index.

### *3.2 Research Design*

#### *3.2.1 Research Objectives*

Descriptive research is research aimed at describing social phenomena. The purpose of descriptive research is to present a complete picture of social settings and relationships in the research.

#### *3.2.2 Research Benefits*

Applied research tries to solve specific problems. The research is addressed directly to solve the problem. Thus the study results in recommendations for a particular problem, and not solely for the development of the theory.

#### *3.2.3 Research Based on Time Dimension*

Cross Sectional is taking part of the symptom (population) at one given time. The graphs will show the three months before the rate change and the three months after. That is, there will be seven months observed in each graph between January and July of 2013 and 2014.

#### *3.2.4 Research Based on Data Collection Techniques*

Quantitative research on existing statistics by using statistical data collected in previous research and reports provided by the Government. Data used is data from the Association of Indonesia Automotive Industries or Gaikindo wholesale data year 2013 and 2014 [5, 6] on the sale of motor vehicles for the capacity of less than 10 (ten) people including drivers with a fuel motor cetus with cylinder content capacity of more than 3,000 cc.

## 4. RESULTS

With the enactment of Government Regulation of the Republic of Indonesia No. 22 Year 2014 about the amendment of government regulation No. 41 Year 2013 on Taxable Goods Classified as Luxury Motor Vehicle which are subject to Sales Tax on Luxury Goods on April 19, 2014 the sales tax rate on luxury goods was raised from 75% to 125%. This increase is imposed on the group of taxable goods which belongs to luxury in the form of motor vehicles with the following classification:

- Motor vehicles with capacity of less than 10 (ten) people including drivers, with a flame-fired motor with a capacity of more than 3,000 cc cylinder content, in the form of :
    - Sedan or station wagon; and
    - Besides sedan or station wagon with 1 (one) driving system (4x2) or 2 (two) drivers (4x4)
- Motor vehicles with capacity of less than 10 (ten) persons including drivers, with compressed motor fuel (diesel or semi diesel) with cylinder content capacity of more than 2,500 cc, in the form of :
    - Sedan or station wagon; and
    - Besides sedan or station wagon with 1 (one) driving system (4x2) or 2 (two) drivers (4x4)
- 2 (two) wheeled motor vehicles with cylinder content capacity over 500 cc; and
- Trailer, semi trailer of caravan type, for residential or camping.

There are many factors that influence consumer spending. To look at the possible effect rate changes of sales tax on luxury goods on consumer behaviour, it is necessary to observe the behaviour as close to the change as possible. Retail volume data are generally given as annual means.

Data obtained from the Association of Indonesia Automotive Industries or Gaikindo in the form of wholesale data year 2013 and 2014 on the sale of motor vehicles for the carriage of less than 10 (ten) people including drivers with a fire motor fuel with a capacity of cylinder content of more than 3,000 cc. Which consists of brands Audi, BMW, Chrysler, Infiniti, Jaguar, Lexus, Mercedes Benz, Nissan and Toyota.

With an average sales of 32.08 in 2013 and 31.25 in 2014. There was a decrease in sales of 0.83. Almost all car brands experienced a decline in sales in 2014, as can be seen in Table 1, except Chrysler (increased sales by 8 units of motor vehicles) and Mercedes Benz (increased sales by 54 units of motor vehicles). Meanwhile, Toyota's sales are stable.

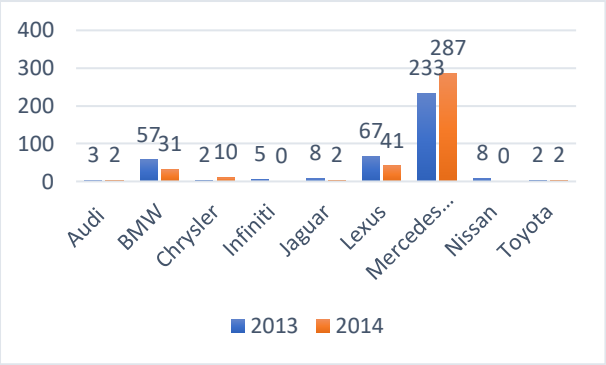


**Figure 1** Wholesale with category sedan CC.3.001 [G]/2501 [D] year 2013 and 2014

When the government of Indonesia raised the rate of sales tax on luxury goods from the previous 75% to 125% on April 19, 2014 there was a significant decrease in retail volume. It can be seen in Table 2 that before April 2014 there is a decline. From April 2014 there were sales of 23 units of motor vehicles, in May 2014 dropped sales into 10 units of motor vehicles, in June 2014 and July 2017 continued to decline sales into 8 to 5 units of motor vehicles.

Table 3 shows the percentage change in the month from the same month in the prior year. In this case, the percentage change for April 2014 is the change of the retail volume in April 2014 from the retail volume of April 2013, as a percentage. The percentage change of retail volume from the prior year month has a major influence. Even from before April 2014 there was a decline. From April 2014, the percentage change to 0.36, in May 2014 and June 2014 dropped to-0.84 and-0.65. However, in July 2014 it rose to-0.70.

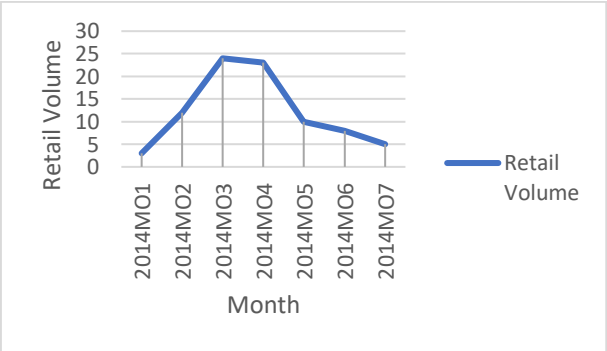


**Figure 2** Indonesia increases the Sales Tax on Luxury Goods tax rate to 125% (form 75%) in April 2014

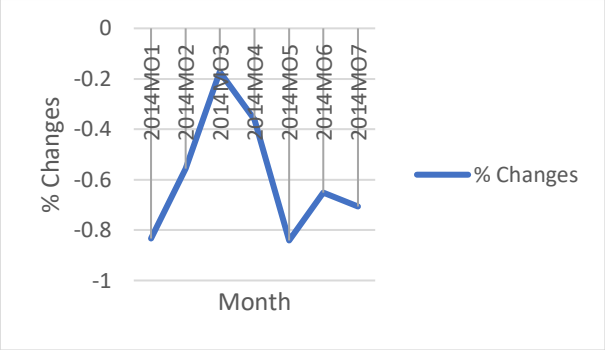


**Figure 3** Indonesia increases the Sales Tax on Luxury Goods tax rate to 125% (from 75%) in April 2014: Percentage change in retail volume form same month of prior year

## 5. DISCUSSION

The results indicate that the graphs show that there was a substantial decrease in consumer spending before and after the introduction of the higher rate tax for luxuries. The results in line with the claims of Alexander M.G. Gelardi [4] that consumers tend to adjust their buying behaviors, when a VAT is introduced, and when the VAT rate is changed. The result builds on existing evidence of VAT and consumer spending in this case sales tax on luxury goods. The generalizability of the results is limited by the data from the combined motor vehicle industry of Indonesia or Gaikindo.

## 6. CONCLUSION

This paper described the changes in the Retail Volume at the time of rate changes in Indonesia. Three graphs were used, the first has the wholesale data from 2013 and 2014, the second has the Retail Volume in the months and the third graph has the percentage change from the same a year prior. Whether consumers engage in any arbitrage behaviour was examined.

Taken together, the three graphs show that there was a substantial decrease in consumer spending before and after the introduction of the higher rate tax for luxuries. This would indicate that consumers used arbitrage by adjusting their behaviour as a result of the new higher rate.

## REFERENCES

[1] V. C. Jaunky, J.Jeetoo, S. Rampersad, "Happiness and Consumption in Mauritius: An Exploratory Study of Socio Economic Dimensions, Basic Needs, Luxuries and Personality Traits," *Journal of Happiness Studies*, vol. 21, pp. 2377-2403, 2020.

[2] R. Mason, "Conspicuous Consumption and the Positional Economy: Policy and Prescription Since 1970," *Managerial and Decision Economics*, Vol. 21, No. 3/4, pp. 123-132, 2000.

[3] P. Engström, "Bling bling taxation and the fiscal virtues of hip hop," *Social Choice and Welfare*, Vol. 37, No. 1, pp. 139-147, 2011.

[4] A. M. G. Gelardi, "VAT and Consumer Spending : A Graphical Description Analysis," *Asian Journal of Finance & Accounting*, Vol . 5, No. 1, pp. 1-20, 2013

[5] Motor vehicle industry of Indonesia or Gaikindo wholesale data year 2013

[6] Motor vehicle industry of Indonesia or Gaikindo wholesale data year 2014