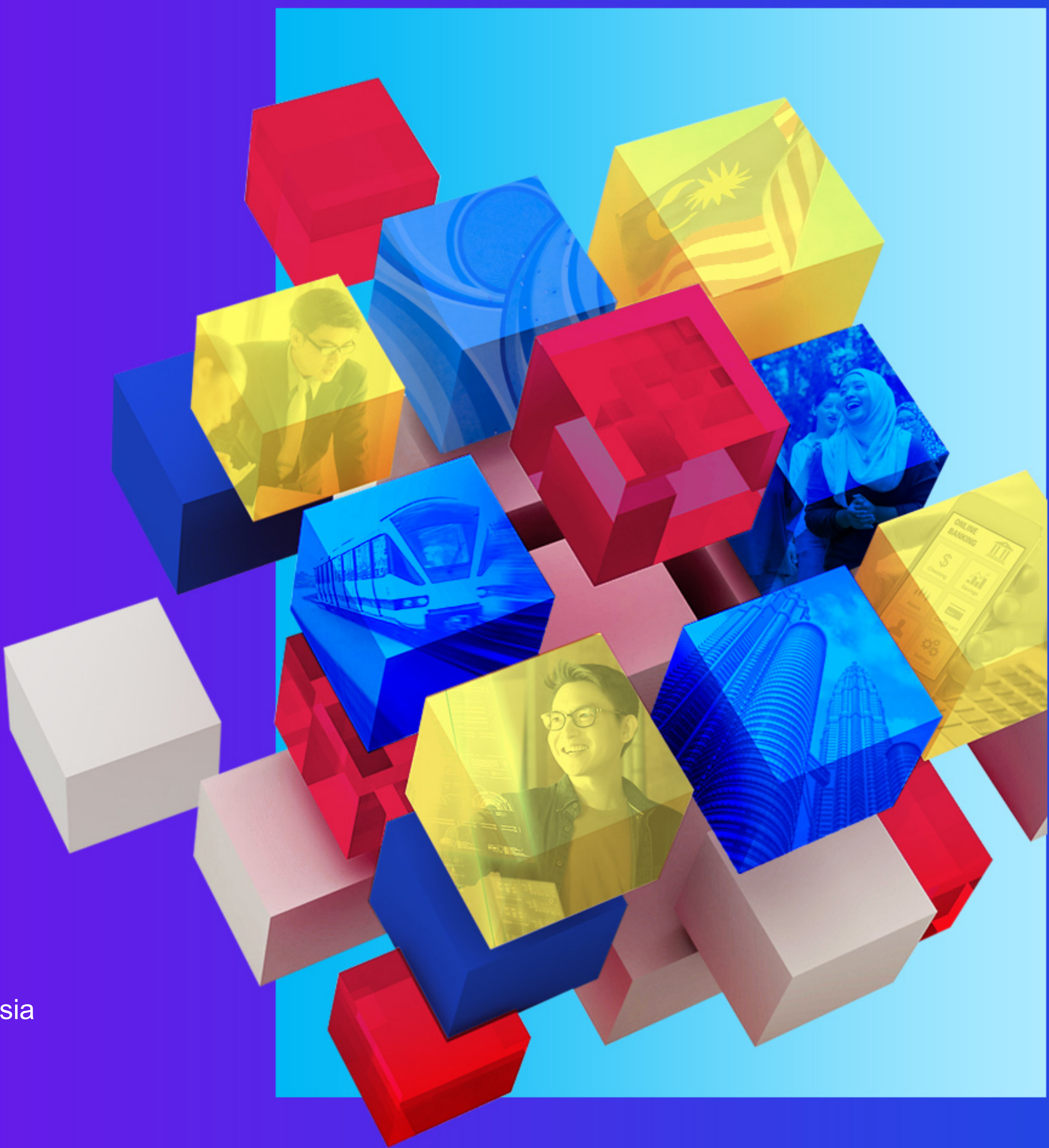
Luxury Goods Tax – A Tax on High Value Items

February 2023 update



February 2023

KPMG in Malaysia

Overview and Commentary

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Key Message

In his maiden tabling of the Budget 2023 after winning the 2022 General Election, the Prime Minister and Finance Minister, YAB Dato' Seri Anwar bin Ibrahim proposed the introduction of Luxury Goods Tax this year for goods of certain types and value. Amongst the mentioned goods are luxury watches and luxury fashion items. The objective is to expand the tax base of those who can afford and make Malaysia's tax system more progressive. It is a tax on the wealthy and it would be interesting to see how it impacts consumer behaviour once it is implemented.

What is Luxury Goods Tax?

A Luxury Goods Tax is a tax on high value goods; it is levied on goods that cost more than a specific amount and are not viewed as essential goods or necessities. Usually levied as a form of indirect tax, the tax is collected and paid by purchasers of these luxury products – hence it will impact those who can afford it.

Luxury Goods Tax is typically implemented with the aim of generating revenue for the government. In some countries, Luxury Goods Tax is implemented as a way of discouraging imports of luxury goods and promote domestic production. In Malaysia, it is no doubt that the objectives of the proposed Luxury Goods Tax are to increase government revenue as well as make the tax more progressive.

Although new in Malaysia, this form of tax is not unheard of in other countries. Countries such as China, Taiwan, Indonesia, South Korea, Norway, Italy and Chile have implemented some form of tax on high value goods. Globally, Luxury Goods Tax (or equivalent) could be imposed via consumption tax (more commonly seen) – e.g. Goods and Services Tax (GST)/ Value Added Tax (VAT) or levied via import duty or excise duty on luxury items such as cars, yachts, jewelleries, luxury clothing, handbags, perfumes and watches. In some cases, the tax rate is a flat percentage, while others could be progressive (tax rate increases as the value of the item increases). Luxury Goods Tax varies around the world, depending on the country and its economy, tax policies and political circumstances.

Below are some examples of the Luxury Goods Tax in other countries:

Country	Examples of Luxury Goods subject to Luxury Tax	Tax Rate
China	Cosmetics, watches, bags, liquors	Up to 50+% (depends on goods)
Taiwan	Passenger cars, private jets, helicopters, yachts	10%
Indonesia	Luxury residences, aircraft, cruisers, motor vehicles	Ranges from 10% - 95%
South Korea	Jewelleries, watches, cameras, bags	Fixed + 50% variable
Norway	Expensive electric vehicles	Proposed 25%
Italy	Private chartered flights	Fixed amount (depends on distance)
Chile	Yachts, helicopters, automobiles	2%

Are You Affected?

Apart from raising revenue, the Luxury Goods Tax is considered as a progressive tax because it only applies to purchases that are likely to be made by the high-income earners who can afford them. Hence, this tax should impact the wealthy as opposed to the vast majority of the population.

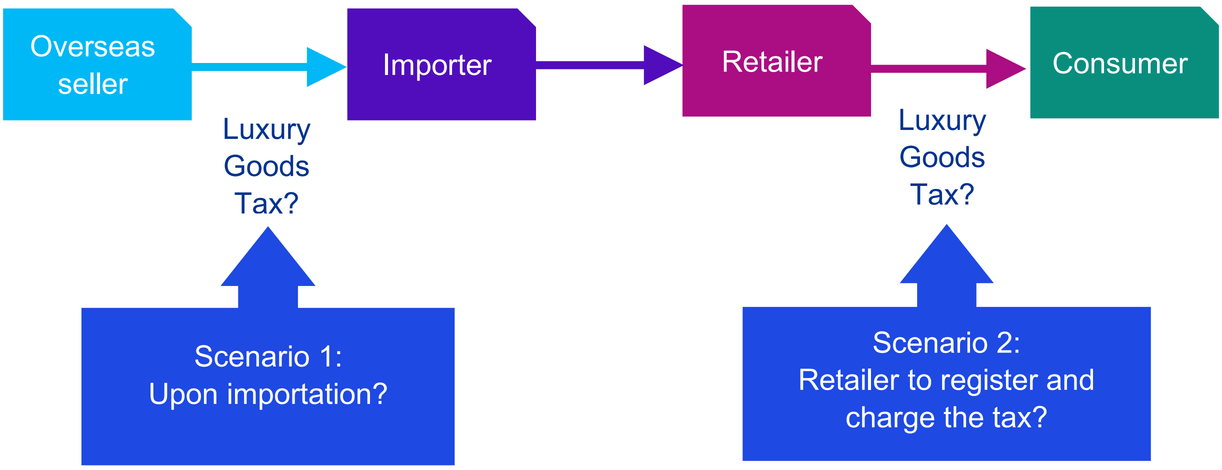
The details on how the Luxury Goods Tax will be implemented in Malaysia have not been released. At this preliminary stage, businesses and consumers alike would be interested to know how it impacts them. Amongst others, the following would need further clarity:

- How will the tax be implemented, e.g. an increase in the Sales Tax rate?
- When is the effective implementation date?
- What is the definition of “luxury goods”?
- What is the rate of tax?
- What is the threshold to be classified as luxury goods?
- Who will be responsible to collect the tax e.g. the retailers of such goods?

- When is the point of charging and collecting the tax?
- Will there be transitional rules?
- Would it result in tax cascading?
- Would there be any tax exemption (or equivalent) to avoid tax cascading?

For businesses

At this point in time, it may be worth "anticipating" the possible scenarios in the implementation of Luxury Goods Tax and how it may affect the stakeholders – who knows it could serve as a good piece for brainstorming. As a baby step and not to complicate matters, we have depicted two possible scenarios in the following diagram (please note that the scenarios are not exhaustive):



Scenario 1:

Luxury Goods Tax to be levied on imported goods upon Customs clearance. The challenges foreseen with this option are:

- As it stands, goods imported are already subject to import duty and Sales Tax (at a prescribed rate), depending on the HS code. To increase the existing rates for certain classes of goods may not be straightforward as it needs a review of the affected HS codes, which can be time consuming.
- The new requirement (if any) may impact the current Customs clearance procedures, which may already be complicated and challenging for some of the players.

Scenario 2:

Luxury Goods Tax to be charged by the retailer to the consumer. However, it is worth considering the following for the current landscape in Malaysia:

- Malaysia's consumption tax equivalent is Sales Tax (for goods). Sales Tax is a single stage tax, and there is no input tax credit. If the Luxury Goods Tax is in the form of Sales Tax, by imposing the Sales Tax on luxury goods at the retail level, it could result in tax cascading if import duty and

Sales Tax have already been paid upon importation or charged by local Sales Tax registered manufacturer.

- In the GST/ VAT context, most if not all businesses would have already been registered for GST/ VAT and charging GST/ VAT. The introduction of Luxury Goods Tax could only mean an increase in the GST/ VAT rate. In Malaysia, Sales Tax principally covers manufacturers of taxable goods in Malaysia. As it stands, none of the retailers are required to register for Sales Tax and charge Sales Tax (with the exception of the newly implemented Sales Tax on low value goods). If this option is adopted, it would mean that retailers are required to register for Sales Tax and charge Sales Tax. Accordingly, the concern would be on how to implement and probably what are the costs/ resources involved therein.

For consumers

In the absence of details, it is hard to predict the impact on consumer behaviour. Hopefully there will be greater clarity soon. Based on some other countries experiences, if the rate is too high (and resulted in higher final price), it may push buyers outside Malaysia. It is hoped that this does not happen here as Malaysia always pride itself to be a tourism and shopping destination.

Luxury Goods Tax would affect various stakeholders (be it individuals or businesses) directly or indirectly. It is undeniably a progressive tax, and hopefully careful studies will be conducted prior to the implementation.

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