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**Luxury Taxation: Key Insights for High-Net Worth Individual and Brands**

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**ABSTRACT:**

There's been a debate for such a long time on whether the imposition of luxury tax is beneficial or not. And if it is then what will be its effects on luxury brands and High-Net-Worth individuals? What is the scope of the implementation? Some people think that it is full on a political issue to extract money from the super-wealthy but in some aspects, it is carried out to develop the country and help the government to generate additional revenue which turns out to be beneficial during times of war and other tragic events. Also, spending money on luxury goods excessively is very irrational from a psychological point of view. People who buy it at times are not in a financial position to afford it but to maintain the status without thinking rationally they just go for it. Therefore, it is difficult to predict the behavior of High-net-Worth individuals and the government used it as an opportunity by imposing a tax on luxury goods turns out to be a very smart move. However, it is a complex issue because it affects many people and companies. In this article, we will understand how luxury brands, High-net-Worth individuals, and the government deal with the luxury tax.

**Keywords:** luxury tax, High-Net-Worth individuals, Government, strategies, luxury goods and, services.

**Research objective:**

1. To analyze the factors of luxury taxation and its effect on High-Net-Worth individuals & luxury brands.
2. To analyze that luxury tax is different from other taxes imposed by the government.
3. To figure out that is there any deductions available in tax on luxury goods and services.

**INTRODUCTION:**

Luxury taxation is a topic that has been widely debated in recent years. The High-Net-Worth individuals and companies who make luxury brands are often targets of government that's why luxury taxation has been designed to generate revenue from them. The word luxury means service or commodity or we can say a privilege specified as ministering comfort, enjoyment,

or pleasure to a person's life. As per the Luxury Tax Act and State Luxury tax rate a person has to pay the respective taxes involved. The Indian government and many other countries faced challenges dealing with the positioning tax on luxury goods for a long time. So, the Indian Tax Administration introduces the Goods and Services Tax (GST) by the government. According to them, one person's luxury can be another person's necessity.<sup>1</sup> The luxury tax is a sales tax or excise tax (by contrast, a value-added tax or retail sales tax is a general consumption tax that applies to all provisions of goods and services)<sup>2</sup> or surcharge levied only on certain products or services that are deemed non-essential or accessible only by the super-wealthy.

A high-Net-Worth (an amount by which assets exceed liabilities) individual is a person who owns liquid assets including money held in brokerage accounts or banks and excluding assets like primary residence, durable goods, and collectibles. HNWI's belong to the financial services sector where a class of individuals has an investible surplus (extra amount of money for investment in appreciating assets, it does not include investment in real estate and excludes acquired without the expectation of return getting from it) money of more than Rs 5Cr.<sup>3</sup> Types of HNWI's :

1. High-Net-Worth: who owns liquid assets between Rs 5 lakh-5 Crore.
2. Very High Net Worth: who owns liquid assets between Rs 5 Crore- 25 Crore.
3. Ultra High-Net-Worth: liquid assets more than Rs 25 crore.

Luxury taxation can help to sustain the shared understanding that possession of luxury goods is not a universally approved standard of social esteem or status. It is justifiable when it helps to create and sustain social norms against conspicuous consumption that displays wealth. It is also important to consider the tax implication of the purchase of luxury goods and services and the potential impact on their wealth management strategy. And luxury taxation can impact consumer behavior because the psychology behind people buying luxury goods is complex and irrational. Luxury tax can even vary depending on the country and the specific tax law and period.

### **Types of luxury goods upon luxury tax are levied**

<sup>1</sup> Luxury tax in India, ClearTax, (June 27, 2023), <https://cleartax.in/s/luxury-tax-in-india>

<sup>2</sup> Hyunseop Kim, Is Luxury Tax justifiable?, Economics & Philosophy, Cambridge Core, ( December 20, 2022),

<sup>3</sup> High Net Worth Individuals, Business Standard

The products and services that are deemed non-essential and accessible only to the super-wealthy people are subject to the luxury tax<sup>4</sup>. Such goods are:

1. Yachts.
2. Expensive cars (purchases over \$70,000).
3. Jewelry including watches.
4. Expensive fur clothes and products made out of fur.
5. Private jets.
6. Real estate (transactions above a predetermined level, above \$1 million).
7. Wine and champagne.
8. High-cost items such as perfumes and cosmetics.

### History of Luxury Taxation in India

The luxury tax was introduced in India in 1996, but according to the luxury tax act 1988 was enacted by the state of Madhya Pradesh legislature in the thirty-ninth year of the Republic of India.<sup>5</sup> The assent of the governor was received on the 26<sup>th</sup> of May 1988 and was first published in the Madhya Pradesh Gazette dated 31<sup>st</sup> May 1988<sup>6</sup>. This act was extended to the whole of Madhya Pradesh. However, it was made by the state government and each has its luxury tax, in 1996 the national capital territory of Delhi<sup>7</sup> has been introduced as a means to generate revenue from the hospitality industry.<sup>8</sup> In the starting, the tax targeted luxury hotels and resorts that catered to High-Net-Worth individuals.<sup>9</sup> Charging specifically for accommodating hotels, the luxury tax was carried out by the individuals of the state governments, leading to various taxes across the states in India, few states opted for different plans as per their convenience. Such as-

1. Fixed % of the room tariff, &<sup>10</sup>
2. Others imposed a flat rate based on the hotel's star rating.<sup>11</sup>

<sup>4</sup> sales Tax and Luxury Tax, Sales Tax Data Link (July 13, 2021) <https://www.salestaxdatalink.com/blog/sales-tax-and-luxury-tax/>

<sup>5</sup> cleartax, <https://cleartax.in/s/luxury-tax-in-india>, (last visited July. 6, 2023).

<sup>6</sup> Luxury tax act, 1988

<sup>7</sup> Delhi Tax on luxuries act, 1996

<sup>8</sup> *Id*, at 03.

<sup>9</sup> *Id*, at 03.

<sup>10</sup> *Id*, at 03.

<sup>11</sup> *Id*, at 03.

In 2009, the uniform tax rate of 12.5% on hotel accommodation has been introduced by the government replacing the system of variable taxes. In 2012, new amendments had been done to the Delhi Tax on Luxuries Act 1996 to create a more simplified taxation strategy.<sup>12</sup>

Finally, in 2016, the luxuries tax and other taxes which were imposed indirectly were summed up under a single framework known as GST (Goods and Services Tax). It has put luxury items in the highest tax bracket at 28%.<sup>13</sup>

- **Key insight into luxury tax in India**

In Delhi, the rate of luxury tax can be 5% or 10% depending on the room tariff, but non-AC restaurants applicable under GST Act is 12%. For luxury cars, it is 28%. The surcharge on luxury goods varies from 12% to 200% to the national GST introduced in 2017. The tax is used for developing the country's tourism, infrastructure, and other projects.<sup>14</sup>

### **Luxury tax in other countries**

Luxury tax differs from state to state and country to country in terms of products or services that are taxed.

1. Many countries impose taxes on luxury items such as jewelry, art objects, technological devices, high-end vehicles, and fashionable objects made by luxury brands.<sup>15</sup> Some countries impose it to protect the local industry while others use it for fiscal resources.<sup>16</sup>
2. During times of war to generate and increase revenue for the government or to fund another large expense without raising taxes on the general population luxury tax has been imposed. It is also imposed as a % of the purchase price or as of the amount above a specified level.<sup>17</sup>

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<sup>12</sup> Luxury tax in India, ClearTax, (June 27, 2023), <https://cleartax.in/s/luxury-tax-in-india>

<sup>13</sup> *Id.*, at 03.

<sup>14</sup> India to extend surcharge on taxes on luxury items, tobacco, Reuters, (October 5, 2020), <https://www.reuters.com/article/india-economy-tax/india-to-extend-surcharge-on-taxes-on-luxury-items-tobacco-idUSKBN26Q25H>

<sup>15</sup> auxadi, <https://www.auxadi.com/blog/2017/10/31/luxury-tax-discover-the-advantages-for-the-economy/>, (last visited July. 6, 2023).

<sup>16</sup> Luxury tax: Discover the advantages for the economy, Auxadi, (October 31, 2017), <https://www.auxadi.com/blog/2017/10/31/luxury-tax-discover-the-advantages-for-the-economy/>

<sup>17</sup> Beverly Bird, What is a Luxury Tax? , The Balance, (November 28, 2022)

<https://www.thebalancemoney.com/what-is-a-luxury-tax-5208103>

3. To make tax-dodgers pay the income tax they owe, the luxury tax is a better solution for it. Every country has a varied specific tax, based on this some luxury goods can be exempt from luxury tax.<sup>18</sup>

- **Luxury tax on Jewelry-<sup>19</sup>**

1. United States: 10% of the portion of the retail sales price that exceeds \$10000.
2. China: consumption tax ranging from 1% to 56% on prescribed non-essential and luxury goods including high-end jewelry.
3. Malaysia: sale of certain luxury products including jewelry at a rate of 10%.
4. Chile: additional VAT from 15% to 50% is imposed on luxury products.
5. Bulgaria: 10% luxury tax on boats over \$300000 and aircraft over \$ 1 million in 2010.
6. Ecuador: to protect local industry.
7. Italy: to raise more fiscal resources.

- **Luxury tax on vehicles in the US-**

Luxury tax in the US is imposed by the federal government. As of January 1, 1991, a tax of 10% on automobiles that exceeds \$30,000, boats that exceed \$100,000, and aircraft that exceed \$250,000. The new federal luxury taxes were imposed under the omnibus budget reconciliation Act of 1990.<sup>20</sup>

- **Example of taxes used by government-**

In 1991, to reduce the federal budget deficit the US Congress enacted a luxury tax which was levied on material goods, also imposed during war times. During the 18<sup>th</sup> and 19<sup>th</sup> centuries, the British government imposed it on carriages and manservants which is only used by the rich people.

### **Misconceptions regarding the luxury tax**

The biggest error is that it is only forced upon the super-wealthy people, which is wrong. It is imposed upon the goods which come under the category of Veblen goods or non-essential ones

<sup>18</sup> Hyunseop Kim, Is Luxury Tax Justifiable?, Economics & Philosophy, Cambridge Core, (December 20, 2022)

<sup>19</sup> Helena Gagne, Alan Kenigsberg, Ilana Ludwin, Roger Smith, Draft select luxury items tax legislation released, Osler, Hoskin & Harcourt S.E.N.C.R.L./s.r.l., (March 28, 2022),

<https://www.osler.com/en/resources/regulations/2022/draft-select-luxury-items-tax-legislation-released>

<sup>20</sup> TSSN-40, Special Notice Concerning Federal Luxury Taxes, CT.gov,

[https://portal.ct.gov/DRS/Publications/TSSNs/TSSN-](https://portal.ct.gov/DRS/Publications/TSSNs/TSSN-40#:~:text=As%20of%20January%201%2C%201991,%2C%20automobiles%2C%20boats%20and%20aircraft.)

[40#:~:text=As%20of%20January%201%2C%201991,%2C%20automobiles%2C%20boats%20and%20aircraft.](https://portal.ct.gov/DRS/Publications/TSSNs/TSSN-40#:~:text=As%20of%20January%201%2C%201991,%2C%20automobiles%2C%20boats%20and%20aircraft.)

and are afforded by the people who have assets more than the value of 5 crores. It also affects lower-income individuals. No doubt that the implementation was intended to tax the rich but it has a greater impact on lower-income individuals. The luxury tax has always been progressive in nature. This way has always been proven a very efficient method to raise revenue for the government but takes a lot of effort to administer it properly and more effectively or else it could have negative effects. It has been implemented for moral reasons too.

### **Strategies of luxury brands and High-Net-Worth Individuals**

To help recuperate the effects of luxury tax, brands, and HNWI's have made new marketing strategies:

1. Brands highlight the value of products, the quality of material, the whole artwork, and how their product is unique from lower-priced alternatives. Their targeted audience is high-end consumers<sup>21</sup>. For marketing, they use events, personalized experiences, and limited-edition products, even discounts, and gifts. They also diversify their product line which includes affordable pieces.<sup>22</sup> Brands even increase the price of goods to compensate and even to maintain the demand for products in the market they reduce the cost, shift the burden of tax on consumers by passing the cost and lastly increase their efforts in marketing and advertising to promote the value.<sup>23</sup>
2. High-net-worth individuals distract themselves from purchasing items because of the increase in cost. So, they chose to purchase items that are less in cost as alternatives or items which are not subject to tax, they adjust spending a lot to avoid tax, even delaying the purchase. For them, the luxury tax is unfair, and participate in advocacy groups, participate in charitable giving, and support causes. To minimize the impact of luxury tax they adjust their investment strategies. They use tax-efficient vehicles, trusts, foundations, offshore accounts, etc.<sup>24</sup> Sometimes luxury tax does not even bother the HNWI's they keep purchasing the goods if they felt that it is valuable and effective.
3. To generate revenue from HNWI's governments established new ways such as imposing higher income tax, property tax, estate tax on the transfer of property during the death, capital gains tax, and tax on net wealth of the individuals.

<sup>21</sup> Conspicuous Consumption, Pure Profits, and the Luxury Tax, NBER, (September 01, 1992), <https://www.nber.org/papers/w4163>

<sup>22</sup> Luxury Tax, WallStreetMojo, <https://www.wallstreetmojo.com/luxury-tax/>

<sup>23</sup> Julia Kagan, what is a Luxury Tax? Definition, how it Works, and Example, (July 19, 2020)

<sup>24</sup> Luxury Tax, WallStreetMojo, <https://www.wallstreetmojo.com/luxury-tax/>

## Exemption on luxury goods

Products that are exempted from the tax are-

1. In Canada, menstrual products are exempted from GST and harmonized sales tax as of July 1, 2015. Vehicles that are not designed to be driven on highways and streets, vehicles used by hospitals, fire departments, and other public facility. Older vehicles like motor vehicles, aircraft, or ships registered before September 2022 and even not manufactured before 2019 are not subject to the luxury tax.<sup>25</sup>
2. In the US, automobiles used for trade or business purposes of transporting persons or property for compensation are exempted.
3. Government imposes a luxury tax upon the goods based on certain criteria, if the product is eligible then the luxury tax would be imposed on it, this happens in case of providing exemption to the goods from the luxury tax. Depending upon the various factors such as its type, price, and purpose. To support the exemption of goods necessary documents are needed like proof of ownership, proof of purchase, and other documents deemed fit. After submitting the request wait for the response (approved or denied, or for additional documents).<sup>26</sup>

## Scope of luxury tax

By imposing a luxury tax government generate additional revenue and discourages excessive spending. Every decision or thing has both sides positive and negative. According to the government imposing luxury tax has an optimistic impact on the country. It has a wide scope of generating revenue that will be useful in reducing the federal budget deficit, developing the country and its infrastructure, and funding another large expense without raising taxes and burdening the people. It only positions goods that are limited edition and whose value arises as a status symbol.<sup>27</sup>

## Does luxury tax have a negative impact?

<sup>25</sup> Government of Canada, Canada.ca, (June 02, 2023), <https://www.canada.ca/en/department-finance/programs/consultations/2021/consultation-proposed-luxury-tax/select-luxury-goods-tax.html>

<sup>26</sup> Beverly Bird, What is a Luxury Tax? The Balance, (November 28, 2022), <https://www.thebalancemoney.com/what-is-a-luxury-tax-5208103>

<sup>27</sup> Luxury Tax Definition & Meaning in Stock Market with Example, Kalkine Media ASX Share Market news & research, (April 30, 2022), <https://kalkinemedi.com/definition/l/luxury-tax>



It does have some negative effects. Such as loss of consumers and reduction in demand due to higher cost of the product. Also, reduction in sales and revenue for manufacturers and retailers. Lay off in companies because of the demand reduction will lead to job losses in the industry. And when consumers opt not to make any purchases then it will distort the market which will rigorously impact the lower income individuals. The luxury tax is difficult to enforce, and it can lead to tax evasion or avoidance may be.<sup>28</sup>

### Criticism

There are various arguments raised for the luxury tax and against it. The government has raised the tax and the High-Net-Worth individuals in against it. Their arguments are based according to the benefits each party will enjoy. The Government has profited by imposing the tax and High-net-Worth individuals will struggle because of that. Luxury tax may not be an efficient way as compared to other forms of taxes. So, in my opinion, luxury tax should be imposed but not excessively because that will affect the market and will do greater damage to the economy<sup>29, 30</sup>.

### CONCLUSION:

So far we've discussed, the imposition of the luxury tax can affect the country without any biases, but the range of it will differ based on the financial credits individuals have if imposed excessively upon the people. It'll mostly affect lower-income individuals because of a lack of reserve money and distort the market. Luxury taxation can be profitable to the government by additionally generating revenue but also to High-net Worth individuals by increasing the value of an asset.

We cannot justify the imposition of luxury tax wholly, it has some positive as well as negative effects. If not kept in mind before amending new rules concerning it, then greater damage can be done. To perceive the effects of luxury taxation on luxury brands and high net-worth individuals introduce new strategies. The government has also provided certain deductions in tax and exemptions on luxury goods that will provide relief to individuals and maintain the economy. Every country and state has different methods and guidelines for implementing and

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<sup>28</sup> Edward Miller, "Status Goods and Luxury Taxes." *The American Journal of Economics and Sociology*, vol. 34, no. 2, 1975, pp. 141–54. *JSTOR*, <http://www.jstor.org/stable/3485803>

<sup>29</sup> Hyunseop Kim, *Is Luxury Tax justifiable?* Economics & Philosophy, Cambridge Core, ( December 20, 2022),

<sup>30</sup> Patrick Imam, *Luxury Taxation, good for Economic Development?* *The World Financial Review*, (March 25, 2016), <https://worldfinancialreview.com/luxury-taxation-good-for-economic-development/>

adjudicating luxury tax. And so luxury brands and HNWI's will find new strategies to exploit the loopholes to pay far less than their share and the government will find new ways to impose such taxes upon them. So conclusively, there's no end to this debate.

