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# New Luxury Goods Tax in Malaysia

## The knowns and unknowns

# Table of Contents

# Introduction

Get ready to bid farewell to tax-free luxury shopping in Malaysia! The Malaysian government has announced plans to impose a Luxury Goods Tax on certain types of high-end items starting in 2023. The move is part of the Revised Budget 2023, which aims to generate additional revenue for the country's coffers.

## What are luxury goods?

But what exactly are luxury goods? These are items that are not essential for daily living and are often associated with high status, exclusivity, and jaw-dropping prices. Think luxury watches like Rolex, designer handbags like Louis Vuitton or Birkins, and other items that are purchased solely to flaunt one's wealth.

However, the Malaysian government is still finalising the definition of luxury goods, as well as the rate and coverage of the Luxury Goods Tax. Deputy Finance Minister Steven Sim has assured the public that the government is carefully fine-tuning the details before making any official announcements. Meanwhile, Datuk Seri Ahmad Maslan, another Deputy Finance Minister, has said that Malaysians can expect to hear more details about the Luxury Goods Tax in June 2023.

# Luxury Goods Tax in other countries

It's worth noting that luxury goods taxes vary widely depending on the country or jurisdiction. Different governments have different thresholds, tax rates, and specific goods subject to luxury goods taxes. A quick survey of the countries which have implemented luxury goods taxes or similar taxes shows the following:

| Countries | Details of Luxury Goods Tax | Rate of tax (%) |
|---|---|---|
| China  | The luxury goods tax in China is called the consumption tax. The consumption tax applies to prescribed non-essential and luxury goods, such as high-end cosmetics, jewellery, luxury watches, motor vehicle, yachts, alcohol, etc.<br>The rate of consumption tax in China ranges from 1% to 56%. | 1% to 56% |
| Chile  | The general Valued-Added Tax (“VAT”) rate in Chile is 19%. An additional VAT ranging from 15% to 50% is imposed on certain goods such as luxury products (Impuesto Adicional a los Productos de Lujo).<br>The tax is imposed on the sale of certain luxury products, such as gold, platinum, jewellery, natural or synthetic precious stones, fireworks, high-end cars, etc. | 15% to 50% |
| Indonesia  | In addition to the imposition of VAT, Indonesia has imposed a luxury goods sales tax on luxury goods. Luxury goods in Indonesia include luxury cruisers, aircraft, motor vehicles, luxury residences, etc.<br>The rates of luxury goods sales tax range from 10% to 125%. | 10% to 125% |

# Luxury Goods Tax in other countries (cont.)

| Countries | Details of Luxury Goods Tax | Rate of tax (%) |
|---|---|---|
| South Korea  | In addition to the standard rate of VAT of 10%, South Korea imposes a special consumption tax on certain luxury goods, such as slot machines, firearms for hunting, jewellery, pearl, luxury watches, luxury bags, repaired ships, fur clothing, fur products, etc.<br>The rate of the special consumption tax varies depending on the item being purchased. The rate of this tax ranges from 2.5% to 55%. | 2.5% to 55% |
| Turkey  | Turkey also imposes a special consumption tax on certain luxury goods. This tax is applied on specific luxury goods, such as vehicles, boats, yachts and aircraft.<br>The special consumption tax rate on luxury goods in Turkey varies and can range from 20% to 220%, depending on the value of the luxury items. | 20% to 220% |
| United States  | In 1991, the United States imposed a 10% luxury tax on certain luxury goods that are sold for more than a specific amount. The luxury goods included boats, autos, private planes, jewellery, etc.<br>However, this luxury tax was repealed in 1993 (i.e. after two (2) years) when it adversely impacted certain industries. | 10% |

# Challenges
## in implementation of Luxury Goods Tax

As the government of Malaysia considers the implementation of a Luxury Goods Tax, it is important to understand the potential challenges that such a tax may face.

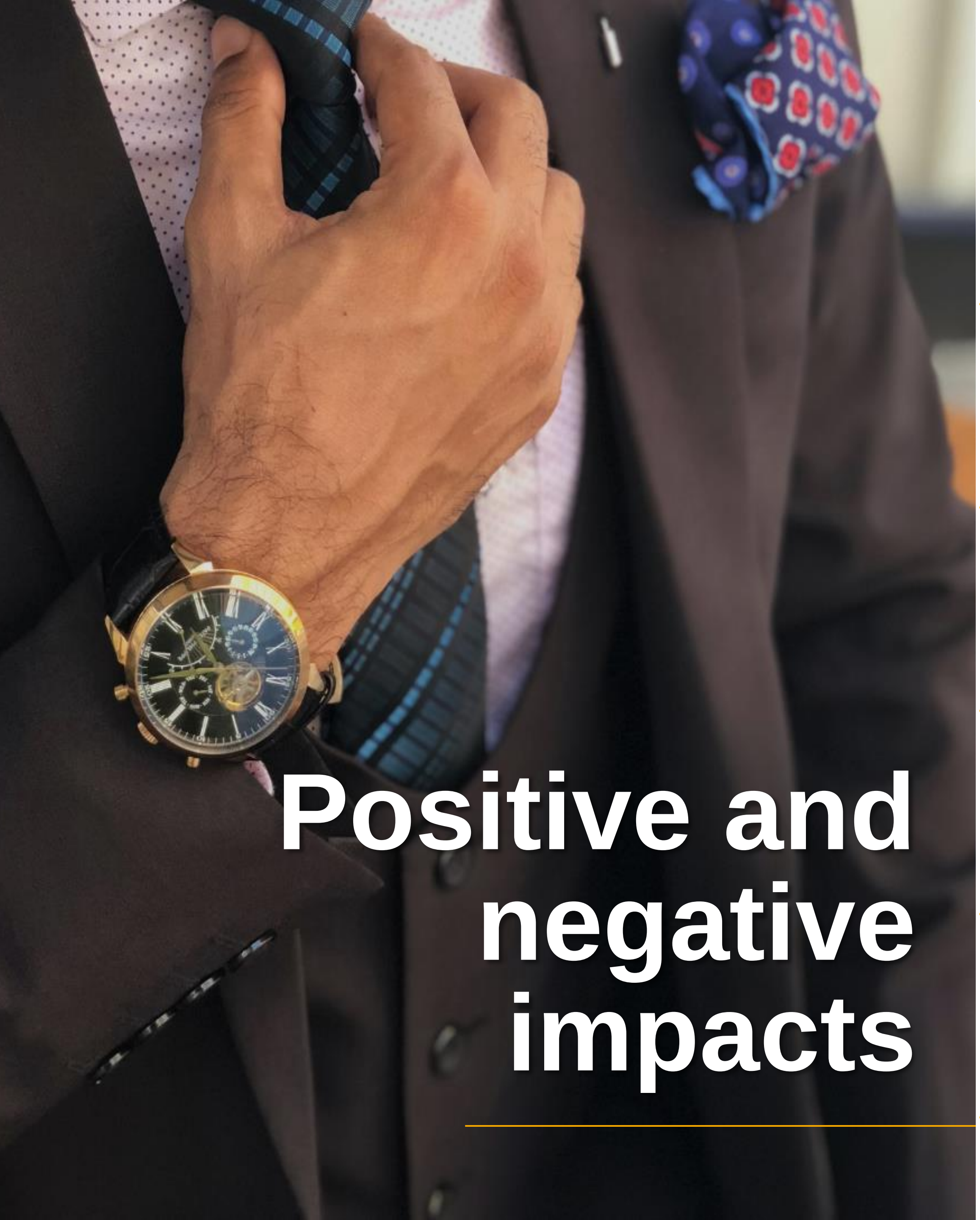
The luxury goods subject to tax are typically considered high-end or expensive items such as high-end automobiles, personal luxury goods like watches and jewelry, and even yachts and private jets. However, implementing such a tax may not be an easy feat.

### Defining Luxury Goods

Different countries and cultures may have different views on what defines luxury, making it difficult to establish a single definition that applies to all contexts.

### Administrative challenges

Enforcing the Luxury Goods Tax can be costly and complex, especially for smaller or resource-limited countries. This includes preventing smuggling and accurately assessing and collecting the tax.



# Positive and negative impacts

The implementation of the Luxury Goods Tax can impact the competitiveness of domestic luxury goods producers, making their products more expensive compared to goods produced overseas. This could lead consumers to purchase luxury goods from other countries or underground markets, resulting in a decrease in overall sales and potentially reduced tax revenue for the government.

However, the imposition of a Luxury Goods Tax can generate revenue for the government. For instance, the sale value of manufactured watches, clocks and parts in Malaysia in 2022 was RM2.22 billion. Assuming a flat rate of 10% Luxury Goods Tax, the government could potentially generate RM222 million in revenue from tax on luxury watches.

On the other hand, if the Luxury Goods Tax is too high, it may deter tourists from purchasing luxury goods in Malaysia, leading to a decline in the retail industry. The government can consider implementing a tourism refund for foreign tourists purchasing luxury goods in Malaysia to attract more tourists and maintain the competitiveness of Malaysia's luxury goods market. The government could also consider imposing a tax on only certain luxury items or exempting certain luxury goods from the tax to minimise the negative impact on the industry.

# Conclusion

Overall, the government needs to strike a balance between generating revenue and maintaining the competitiveness of Malaysia's luxury goods market. Careful consideration of the potential impacts on the economy, the luxury goods industry, and the tourism industry is crucial.

The government should consult with industry experts and stakeholders to assess the potential impact of the tax and define luxury goods based on Malaysia's unique social, economic and cultural factors. The implementation of a Luxury Goods Tax is a complex issue that requires a well-thought-out approach.

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## About Crowe Malaysia PLT

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