

# Luxury Car Sales after Taxes Reduction: Indonesian Market Experience

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## **Abstract:**

The elimination and reduction of taxes on certain types of goods have reaped various responses in the community, including luxury cars. Some people agree with the government policy, but there are also people who disagree. This study aims to explore the public response to the decline in sales tax on luxury cars. This study used questionnaires with 81 respondents. This study used linear regression model. The results of this study indicate that a decrease in tax rates does not affect the consumption of luxury cars. This is because luxury cars are still classified as tertiary needs for the people of Indonesia. In addition, the policy of reducing and eliminating sales tax on luxury goods has not been able to reduce the price of luxury cars in Indonesia because the income tax rate on imported goods and import duties is raised. The results of the study are expected to provide an overview of the effect of taxes on the consumption of the luxury car market in Indonesia.

**Keywords:** *Luxury car, Sales, Taxes, Indonesian market.*

## I INTRODUCTION

Various ways are done by the government to attract people to pay taxes. One of the government's efforts is to reduce or eliminate the tax rate. Reduction or elimination of luxury goods tax rates can affect people's consumption patterns. In February 2018 then on the Republika website (2018), the Minister of Finance agreed to abolish the sales tax on luxury goods in the sedan. In addition, in the Detik website (2019), the Minister of Industry said the government would impose a 0% import duty and reduce luxury goods tax on hybrid cars. Both of these government policies are expected to increase investment in Indonesia, especially in the automotive industry. However, this

policy can lead to different perceptions among the community. Some people agree with government policies. In the Media Indonesia website (2018), it was revealed that the tax abolition policy on the sale of luxury goods in sedans was considered to reduce the price of sedan cars so they could increase sales. However, some people did not agree with the policy because it was considered not to influence the sedan market in Indonesia. In the Bisnis website (2018), Director of Marketing & After-Sales Services of PT Honda Prospect Motor, Jonfis Fandy said that he had not seen the prospect of sedan as a four-wheeled vehicle capable of becoming a volume maker in the domestic market.

This study aims to explore the public response to government policies in reducing or eliminating luxury goods sales tax, especially in luxury cars. The results of this study are expected to be able to provide an overview of the public response to government policies, especially related to luxury goods sales tax [1-19].

## II LITERATURE REVIEW

Luxury goods sales tax is an imposed tax on goods that are considered Luxury in Indonesia. Criteria for luxury goods according to Regulation no. 42 of 2009 regarding the third amendment to the regulation no. 8 of 1983 on value added tax on goods and services, and also luxury good sales tax, namely:

1. Goods that are not included in a basic need
2. Goods that are consumed by a particular group or community
3. In general, the goods are consumed by higher income group or community
4. The goods are consumed to indicate a status

When an item is included in the four criteria above, then the selected goods can be classified as Luxury taxable goods. It is mandatory that the goods will be imposed by the luxury goods sales tax. According to Waluyo (2010) the luxury goods sales tax characteristics, among others (Waluyo, 2010):

1. The imposition of the luxury goods sales tax occurs only once, that is during the delivery of goods from the businessman of the manufacturer or producer who produces Luxury taxable goods or during the import process, it is considered Luxury taxable goods.
2. It is necessary to control the consumption patterns on the Luxury taxable goods
3. The need for protection for the small traditional producers
4. The need for securing the revenue intake for the government, then during the process of delivery of Luxury taxable goods by the manufacturers or importers, there will be

value added tax (VAT) and also luxury goods sales tax.

## III RESEARCH METHOD

### *Sample Selection*

The population of this study is luxury car consumers in Surabaya. Sample selection is based on purposive sampling. Luxury car consumers used in this study are consumers who want to buy a luxury sedan or hybrid car.

### *Data Collection*

The data collection in this research is done by the study of literature, distributing questionnaires, and interviews. *Literature Study*: study of previous researches is to support the objectives of the research. Sources of literature that will be used in this study came from books, journals, articles, government regulations, results of previous researches and other related data. *Questionnaire Distribution*: The questionnaire distributed to luxury car consumers in Surabaya. Respondents are totaled 100 respondents which all respondents are consumers who want to buy a luxury sedan or hybrid car. *Interviews*: Interviews conducted in this research were to luxury car consumers. This is conducted to explore the views of luxury car consumers on the elimination or decreasing of luxury car [20-23].

### *Research model*

The research model is simple regression. The independent variable is luxury car consumer perception on the elimination or decreasing of luxury car taxes (CP). The dependent variable is interest in buying a luxury car (IB). The model used in this study is as follows:

$$IB = a + b1CP$$

Where:

IB= Interest in buying luxury car

CP= Consumer perception

#### IV RESULT AND DISCUSSION

##### *Sample Characteristics*

This questionnaire was distributed to 81 respondents. The respondents consisted of 52 males and 29 females in which 20-30 years old were 12 people (15%), 31-40 years were 29 people (36%), 41-50 years were 22 people (27%), 51-60 were 16 people (20%), and more than 60 years were 2 people (2%). The respondent's profession consisted of 37 entrepreneurs (46%), 11 civil servants (13%), 26 private employees (32%), and 7 other professions (9%).

##### *Result*

Based on the results of descriptive statistics the responses of respondents regarding the reduction and elimination of sales tax on luxury goods, especially luxury cars showed a positive reaction. Of the seven questionnaire statements given, the average value of respondents' answers was 3.41, which was in the high category. This shows that the most of consumers on average gave agreed responses to statements relating to the reduction and elimination of sales tax on luxury goods, especially in luxury cars. In addition, based on the results of descriptive statistics, the policy of reducing or eliminating sales tax on luxury goods, especially luxury cars turned out to be not too attractive for the public to buy luxury cars. Of the three questionnaire statements given, the average value of respondents' answers was 3.07, which was included in the sufficient category. This shows that most consumers have not been interested in returning to buying luxury cars when there are deletions or decreases in sales tax on luxury goods in luxury cars. The regression test results show a significance level of 0.763 where it shows that the policy of reducing and eliminating sales tax on luxury goods in luxury cars does not affect consumers' interest in buying. The policy of reducing and eliminating sales tax on luxury goods in luxury cars is only able to increase consumer interest to buy by 1%.

Whereas 99% is influenced by other factors besides the policy.

##### *Discussion*

The results of the descriptive statistics and regression tests show that the policy of reducing and eliminating sales tax on luxury goods does not affect consumers' interest in buying back luxury cars. Based on the results of the descriptive statistics the average value of respondents' interest in buying back luxury cars is not too large. Whereas viewed from the results of the policy regression test the reduction or elimination of sales tax on luxury goods in luxury cars only affects 1% of consumers' interest in buying back luxury cars. The lack of public interest in buying luxury cars is inseparable from people's consumption patterns and the nature of luxury cars. In the level of public consumption in Indonesia, luxury cars are still classified as tertiary needs which is a requirement that is not required to be fulfilled. In addition, the consumption patterns of people in Indonesia have also experienced a shift. Tertiary needs in the community in Indonesia are no longer in the form of luxury goods, but shifted to the consumption of services in the form of domestic and foreign tours. President Joko Widodo in the Kompas article (2017) revealed that nowadays among the public prestigious status is no longer determined by luxury goods, but rather experiences and adventures published through social media. In addition to changes in consumption patterns among the people, the nature of luxury cars also affects the lack of interest in consumption of the community. All luxury cars in Indonesia are imported goods. As a result, luxury cars are subject to more than one tax, namely value added tax, import duty, sales tax on luxury goods, and income tax. In addition, the Indonesian government tried to reduce the amount of imports to improve the financial account deficit which resulted in a weakening of the rupiah exchange rate. In an effort to reduce the amount of imports, the Indonesian government issued a policy of increasing income taxes and import duties on luxury goods, including luxury cars. The Minister

of Finance, Sri Mulyani, in the article Viva (2017) explained that the income tax for the import of luxury goods was increased from 7.5% to 10% and the import duty was also increased to 50%. Thus, if detailed, luxury cars in Indonesia are subject to 10% income tax, 50% import duty, 10% value added tax, and sales tax on luxury goods between 10% to 125% so that the total cost of importing luxury cars reaches 195% or almost three times the price of the car (Aszhari, 2018). This caused a decrease in sales tax on luxury goods that did not significantly affect the price of luxury cars in Indonesia. The price of luxury cars that are very expensive in Indonesia causes a lack of consumer interest to buy back luxury cars. However, luxury car manufacturers in Indonesia still believe that this government policy is only temporary. Public Relations Manager of Toyota-Astra Motor (TAM), Rouli Sijabat, in the CNN Indonesia article (2018) revealed the regulation of increasing income tax on imported goods and increasing import duties is only temporary because the purpose is only to stabilize the rupiah exchange rate.

## V CONCLUSION

Based on the results of research that has been done, it can be concluded that the Indonesian government's policy to reduce and eliminate sales tax on luxury goods has not been able to attract consumers to buy back luxury cars. This is because luxury cars are still classified as tertiary needs for the people of Indonesia. In addition, the policy of reducing and eliminating sales tax on luxury goods has not been able to reduce the price of luxury cars in Indonesia because the income tax rate on imported goods and import duties is raised by the Indonesian government so that the price of luxury cars in Indonesia is almost three times the price of cars.

## VI ACKNOWLEDGEMENT

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