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Luxury tax perspectives: The evidence of the Republic of Belarus

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Abstract. The study is dedicated to the reasons for luxury tax implementation into the national taxation system. The purpose of the research is to study the emergence and experience of applying the luxury tax in various countries in order to determine the feasibility of introducing such a tax in the Republic of Belarus. Authors' conclusions and findings have been presented against the background of the analysis of digitized texts on tax and bibliometric and scientometric analysis of the scientific field of taxation. As a testing ground for making our conclusions in terms of lessons learned from past historical experience and real economic background, the Republic of Belarus was chosen. Possible reasons for the introduction of such a tax were considered, as well as an analysis of the market for luxury goods in the Republic of Belarus and the demand for them was conducted. We have drawn some parallels between the Republic of Belarus and the Russian Federation to reach a reasonable conclusion. For this purpose, the Russian luxury goods market (premium car and real estate markets) was analyzed based on available statistics for the years 2020–2022. As the most politically controversial tax that can be not as efficient as income taxes and have unintended consequences, luxury tax was examined from the point of international experience and historical perspective. Examples of luxury goods throughout history and in real life together with historical references to the implementation of this tax were presented. The effectiveness of luxury tax and its impact that depends on a variety of factors (tax rate, types of goods and services being taxed, economic conditions, etc.) together with the modern concept of luxury tax with national specific was evaluated. Considering the situation in the Republic of Belarus, although during recent years there has been a budget deficit and there is a necessity to find new sources of state income, we didn't find any reasons for the implementation of such a tax into the national taxation system. These types of taxes are mainly imposed in highly developed countries where people can afford “luxurious” goods and the variety of these goods is higher. In the case of the Republic of Belarus, there is a trend of decreasing the number of people whose purchasing power would allow them to buy luxury goods and the real disposable income of Belarusians has also declined, making it less likely that Belarusians will spend money on the consumption of luxury goods.

Keywords: tax, taxation, luxury tax, state budget, income

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Перспективы внедрения налога на роскошь в Республике Беларусь

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Аннотация. Исследование посвящено исследованию возможностей введения налога на роскошь в национальную систему налогообложения. Цель — изучить генезис и мировой опыт применения налога на роскошь в различных странах для определения целесообразности введения такого налога в Республике Беларусь. Заключения и выводы исследования представлены с учетом результатов анализа оцифрованных текстов по налогам и библиометрического и наукометрического анализа области налогообложения. В качестве полигона для наших выводов с точки зрения уроков, извлеченных из прошлого исторического опыта и реального экономического фона, была выбрана Республика Беларусь. Рассмотрены возможные причины введения такого налога, а также проведен анализ рынка предметов роскоши в Республике Беларусь и спроса на них. Для обоснования сделанных выводов были проведены некоторые параллели между Республикой Беларусь и Российской Федерацией, для чего проанализирован российский рынок предметов роскоши (рынки автомобилей премиум-класса и недвижимости) на основе доступных статистических данных за 2020–2022 гг. Как наиболее политически противоречивый налог, эффективность которого может быть ниже, чем подоходного налога, введение которого может иметь непредвиденные последствия, налог на роскошь был рассмотрен с точки зрения международного опыта и исторической перспективы. Приведены исторические примеры видов предметов роскоши и объекты обложения налогом на роскошь, существующие в настоящее время, а также исследована история возникновения налога на роскошь. Дана оценка эффективности налога на роскошь, зависящая от целого ряда факторов (ставки налога, видов облагаемых налогом товаров и услуг, экономических условий и т.д.), а также раскрыта современная концепция налога на роскошь с учетом национальной специфики. Учитывая ситуацию в Республике Беларусь, даже несмотря на необходимость поиска новых источников доходов в условиях устойчивого дефицита государственного бюджета, который в последние годы имела страна, в настоящее время отсутствует реальная необходимость введения налога на роскошь. Налоги, подобные налогу на роскошь, в основном взимаются в высокоразвитых странах, где граждане могут позволить себе предметы роскоши, и существует разнообразие таких товаров. В случае же с Республикой Беларусь наблюдается тенденция к уменьшению количества людей, чья покупательная способность позволяла бы им приобретать предметы роскоши. Реальные располагаемые доходы населения также снизились, что еще больше уменьшает вероятность того, что белорусы будут тратить деньги на потребление предметов роскоши.

Ключевые слова: налог, налог на роскошь, государственный бюджет, доход

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Introduction

Taxes are compulsory, unrequited payments to the general government[1] whose purpose and effects are determined by their important and unique functions. Taxes are the main source of public revenue, they finance public services and income redistribution, create the conditions for resource reallocation, and stabilize employment and the price level.

For 2023, the tax revenue of the Republic of Belarus is expected to be around 67.05 % of the total national income. In comparison to the previous 2022 year, where the forecasted tax revenues comprised 81.55 % of the national income, it is clear that the share of tax incomes in the national budget has decreased. One of the ways of increasing incomes from taxes could be the introduction of a new type of tax. Since October 2021 the question, of whether to introduce a luxury tax in the Republic of Belarus has become a subject of discussion.

The sense and specificity of luxury tax can be given based on comparison with other less specific and more common taxes. If a value-added tax or retail sales tax is a general consumption tax that applies to all provisions of goods and services, excise tax, by contrast, is a selective tax on the sale or use of specific goods or activities. So, it's possible to say that luxury tax is an excise tax that is levied on luxury goods (Kim, 2022).

But before providing our contributions and proposals on the subject under discussion, it's reasonable to outline the luxury goods' specificity, theoretical framework, and abilities to be used for the luxury tax purpose and track the milestones of the luxury tax development.

[1] Tax. OECD. OECDiLibrary. Retrieved July 19, 2023, from https://www.oecd-ilibrary.org/taxation/tax/indicator-group/english_76e12892-en

Analysis of digitized texts on tax and literature review

In view of the tax role and the benefits accruing from effective tax policy, many studies were devoted to the phenomenon of tax and its consequences on modern society. This shared interest in the topic can be evaluated by Google Books Ngram Viewer (GNV), an analytical tool based on quantitative methods to analyze digitized texts built on big data corpus (Madsen, Slåtten, 2022). GNV is an online viewer, that charts frequencies of any word or short sentence using the yearly count of n-grams found in the sources printed between 1500 and 2019 in American English, British English, French, German, Spanish, Italian, Russian, Chinese, and Hebrew.

The analysis of the frequency of use of the word "tax" conducted using GNV shows a significant decrease in the interest of researchers in taxes in recent years (Figure 1).

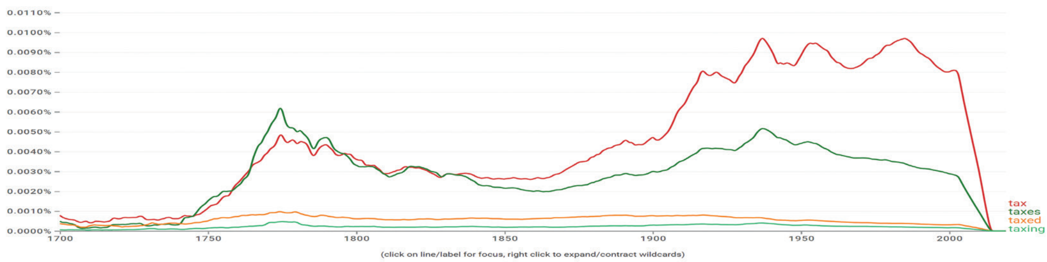

Figure 1. Evolution of the term "tax"

Source: Google Books Ngram Viewer. Retrieved 8 August, 2023, from http://books.google.com/ngrams, .

Figure 1 shows a screenshot of a graph containing the evolution of the term "tax" over the period 1700–2019 (smoothed by 5 years) with the help of inflection — the modification of the word "tax" to represent various grammatical categories such as aspect, case, gender, mood, number, person, tense and voice.

As can be seen, the use of the term peaked several times during the period under review, before starting to decline, showing a dramatic drop in interest after 2005–2006. The first spike of increasing interest in taxes was associated with the events leading up to the American Revolution. One of the main causes of tension between the colonists and Great Britain was the issue of taxation without representation. Some taxes under the Stamp Act and Townshend Duties, imposed by the British government on the colonists, were met with severe indignations and protests.[2] The colonists strongly believed that they should not be taxed without knowing for what purposes taxes were collected and how they were spent, and this led to the famous rallying cry of "No taxation without representation!".[3] They also

[2] Did Taxes Cause the American Revolution? *Yale University Press.* Retrieved August 1, 2023, from https://yalebooks.yale.edu/2017/06/07/did-taxes-cause-the-american-revolution/

[3] Taxation, Representation, and the American Revolution. *Tax Foundation.* Retrieved August 1, 2023, from https://taxfoundation.org/blog/taxation-representation-american-revolution/

believed that taxes should only be imposed with the consent of the governed and for their prosperity. This opposition to taxation without representation was one of the key factors that led to the American Revolution and the eventual declaration of independence from Great Britain. It also was the reason why the use of the term tax peaked for the first time after the 1700s.

We also should take into account the implications of the publication of *An Inquiry into the Nature and Causes of the Wealth of Nations* — commonly referred to simply as *The Wealth of Nations* — published by Adam Smith on March 9, 1776 (Smith, 2002), the same year when "The Declaration of Independence" was published. It was the first attempt to systematize the rules that should govern a rational system of taxation that triggered an expansion of interest in taxes in the second half of the 18th century.

Other picks that we can observe in Figure 1 have been caused by the First World War (1914–1918), the Great Depression (1929–1939), the mid-1950s American economic shift to boom and prosperity, the 1979 energy crisis, triggered by the Iranian Revolution which led to a disruption to the global oil supply and a deep recession (1980–1983).

Up and down spikes observed in Figure 1 are different as compared to the inflection of the Russian term "налог" (tax in Russian) (Figure 2).

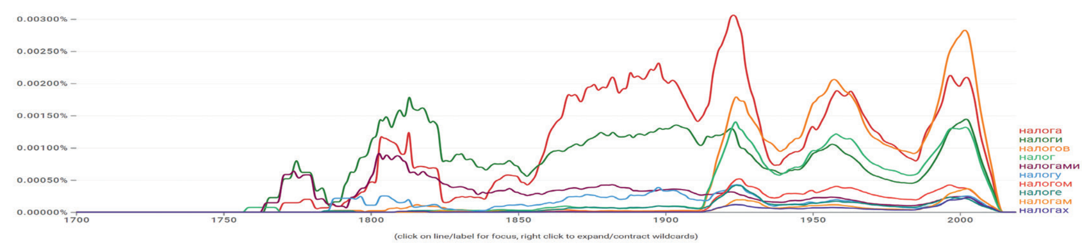

Figure 2. Evolution of the term "налог" (tax in Russian)
Source: Google Books Ngram Viewer. Retrieved 8 August, 2023, from http://books.google.com/ngrams.

As it is shown in Figure 2, for the Russian variant we can see other peaks. The first pick for the Russian "налог" (tax in Russian) in the second half of the 18th century coincided with the English "tax" spiking in Figure 1. Russia in the mid-18th century was dominated by two greats, both ruled in the 18th century: firstly, Peter I, who created a new empire with a new capital facing the west, modernized the country in the European style and created a naval power, and secondly Catherine the Greate who continued Peter's efforts and his reforms and expanded the empire's borders at the expense of Poland and the Ottoman Empire. Peter I spent a lot on his reforms, a regular army, and the construction of the fleet that forced him to constantly look for sources of funding. In those times two-thirds of all expenses were military. The state monopoly on coinage, salt, tobacco, tar, bristle, lard, etc., which can be considered a form of tax in the sense that it allows the government to collect revenue from the sale of goods exclusively provided by the government, was used as a source of budgetary revenues. At the same time, new fees were introduced: stamp duty, dragoon[4] duty, and collection for the ships' construction. As a result of the growth of arrears, the poll tax revenue was raised. The total collection of direct taxes eventually increased from 1.8 million rubles to 4.6 million rubles. It is no coincidence, therefore, that the first pick for the Russian "налог" was in the second half of the 18th century as shown in Figure 2.

The other peaks in Figure 2 were the result of the abolition of serfdom in 1861 and a series of tax reforms in the second part of the 19th century, World War I and the Russian Revolution of 1917, the implementation of the first Five-Year Plan in 1928 and the collectivization of agriculture, a period of economic growth and stability in the mid-1950s and Perestroika during the late 1980s.

However, despite differences in up and down spikes in Figures 1 and 2, there is evidently a lack of interest in the taxes in 2000th. At the same time, based on bibliometric and scientometric analysis (Costa et al., 2023; Yunira et al., 2023), globalization and new economic reality have pushed macro financial and prudential issues of taxation onto center stage in scientific research on new key substantive issues and with a new emphasis on tax evasion and tax planning (aggressive taxation). The breadth and depth of the tax evasion and corporate tax avoidance matters by modern research are ranged from the morality of tax avoidance and inequality (Lokanan, 2023; Di Gioacchino, Fichera, 2020; Argentiero et al., 2021) to modeling of tax avoidance and implication of business digitalization and technologies on tax evasion (Gomes et al., 2023; Alm, 2021; Amzuică, Mititelu, & Nișulescu, 2023). Tax planning as a crucial part of ensuring a sound financial future and an important strategy that helps individuals and businesses to reduce their tax liability also has attracted increasing attention from researchers (Tartono, Hidayat, Haryono, 2021; Cheng et al., 2021; Zelmenis, 2022; Blaufus, Reineke, Trenn, 2023).

The Organization for Economic Cooperation and Development (OECD)'s Base Erosion and Profit Shifting (BEPS) initiative to combat tax planning strategies used by multinational companies that take advantage of loopholes and inconsistencies in tax regulations to evade paying taxes, is another direction of the topic. Different aspects of international taxation for firms that intentionally avoid paying taxes by carrying out tax inversions (relocating operations) or by transferring intangible assets to jurisdictions with lower taxes became the object of interest for the researchers (Noonan, Plekhanova, 2023; Mączyński, 2018).

Our contribution to the development of taxation theory relates to the luxury tax — one of the most politically controversial taxes that hit only a minority of the population. In contrast to other taxes, it can be not as efficient as income taxes for social welfare and can have unintended consequences and fail to achieve their intended goals. With this in mind, the challenges we face in the field of study will not be easy to achieve.

[4] Dragoon. Wikimedia Foundation. Wikipedia. Retrieved August 10, 2023, from https://en.wikipedia.org/wiki/Dragoon.

Research aim, methodology, and limitations

The purpose of the research is to study the emergence and experience of applying the luxury tax in various countries in order to determine the feasibility of introducing such a tax in the Republic of Belarus.

To determine whether a luxury tax should be introduced in Belarus, the study should aim to answer the following underlying questions:

1. What is the definition of a luxury tax, and how does it work?
2. What are the experiences of other countries that have implemented luxury taxes, and what can Belarus learn from these experiences?
3. What are the potential motives for implementing a luxury tax in Belarus?
4. Which goods and services should be subject to the luxury tax in Belarus, and how should they be defined?
5. How would the implementation and enforcement of a luxury tax be managed in Belarus, and what are the potential challenges and costs associated with this process?

To answer these questions, the following structure of the study was drawn up. The third part defines the luxury tax and examines the history of its origin, as well as the motives and experience of applying this type of tax in other countries. The fourth part of the study considers the possibility of introducing a luxury tax in the Republic of Belarus based on an analysis of the market for goods potentially subject to taxation for this type of tax and makes a comparison with Russia, where a similar tax has been introduced.

The study used literary sources and Internet resources, an analysis of the existing tax code of the Republic of Belarus, as well as an analysis of statistical publications from the National Statistical Committee of the Republic of Belarus. While conducting the research such methods as historical review, comparative analysis, statistical analysis, induction, and deduction were used to formulate conclusions of this study.

At the same time, in order to minimize inaccuracies when conducting a comparative analysis, one should take into account the difference in terminology used in the context of the definition of a luxury tax. As follows, the main problem is the different forms of the existence of this tax: in some cases, it can exist as a separate tax applied to luxury items (Canada), or it can be introduced in the form of an increased rate within a progressive form of certain taxes — for example, on property — (France). Moreover, a luxury tax can be applied either as a percentage of the total purchase price or as a percentage of the amount exceeding a specific threshold. The next problem is a categorization of goods as “luxury”, depending on their cost and availability in the country. Thus, in countries with access to the high seas, one can talk about luxury yachts that will be subject to a luxury tax. At the same time Belarus does not have a yachting market as such for its irrelevance and single yachts by their cost do not belong to the luxury segment. Thus, within the framework of this study, it should be taken into account that only the existing luxury goods market in Belarus was considered.

It should be also taken into account that the Russian premium car market which is used to benchmark Belarusian luxury goods markets was analyzed before the recycling fee for cars was increased from August 1.

The economic concept and nature of the luxury tax

Luxury goods are products or services that are not considered essential for daily living but are highly desirable and associated with a high level of quality, exclusivity, and often high price. Examples of luxury goods throughout history and in real life include:

Jewelry. Throughout history, jewelry made from precious metals and gems has been a symbol of luxury and status. For example, in ancient Egypt, jewelry made from gold and precious stones was reserved for royalty and the elite. Today, high-end jewelry brands like Cartier, Tiffany & Co., and Harry Winston are known for their luxurious and high-quality pieces.

Fashion: High-end fashion brands like Chanel, Louis Vuitton, and Gucci are known for their exclusive and luxurious clothing, accessories, and handbags. These items often feature premium materials and intricate designs that are highly sought after by consumers who value quality and exclusivity.

Cars. Luxury cars are often associated with high performance, advanced technology, and sophisticated design. Brands like Rolls-Royce, Ferrari, and Bentley are known for producing some of the most expensive and exclusive cars in the world.

Watches. High-end watches are often considered a symbol of luxury and status. Brands like Rolex, Patek Philippe, and Audemars Piguet are known for their knotted styling, precise timekeeping, and high-quality materials.

Real estate. Luxury homes and apartments are often associated with high-end amenities, advanced technology, and exclusive locations. For example, luxury penthouses in Manhattan and Beverly Hills mansions are highly sought after by wealthy buyers looking for a luxurious lifestyle.

The list of luxury goods above was created artificially with the help of AI ChatGPT (Retrieved from https://chat.openai.com/) but we are interested in types of luxury goods for tax purposes. But overall, it's absolutely clear that luxury goods are typically associated with high quality, exclusivity, and a high price tag, and are often seen as a symbol of status and wealth.

Luxury goods are typically defined as products or services that are not necessary for basic living standards and are considered high-end or luxurious (Yossinomita, 2022). The definition of luxury goods can vary depending on cultural and economic contexts, but they generally include items such as high-end automobiles, jewelry, watches, designer clothing, high-end electronics, and gourmet food and beverages.

Luxury tax is a tax that is specifically levied on luxury goods and services. The concept behind luxury tax is that the consumption of luxury goods is typically associated with higher-income individuals, who can afford to pay more for non-essential items. Therefore, a tax on luxury goods is considered to be a way of taxing the wealthy, while also generating revenue for the government.

The tax base for luxury tax is typically defined as the market value of the luxury goods being taxed. The tax rate is usually a percentage of the market value, and the tax is often imposed at the point of sale. In some cases, luxury tax may also be imposed on luxury services, such as high-end spa treatments or private jet charters.

The effectiveness of luxury tax as a tax base depends on several factors, including the elasticity of demand for luxury goods, the availability of substitutes for luxury goods, and the impact of the tax on consumer behavior. Luxury tax can be a controversial tax, as some argue that it unfairly targets the wealthy and may not generate significant revenue for the government. In addition, the introduction of such type of a tax would incur a double taxation problem, compromising the voluntary tax compliance of the taxpayers (Çiftçi, Şahin, 2021). However, proponents of luxury tax argue that it is a way of reducing inequality and can be an effective way of generating revenue for public services. Since taxes have not only financial but also social significance, they inevitably raise the issue of equality and its effect on the population's happiness level. It has been revealed that countries that have a higher degree of progressivity in their income tax systems tend to enjoy elevated levels of happiness (Ng, 2022a).

Luxury taxes have been a controversial topic throughout history. The first historical reference to this tax can be found in ancient Rome, where such type of a tax was levied on items such as jewelry, furniture, and clothing made of certain materials. However, the luxury tax was more widely used in Europe in the 17th century under the influence of the school of Mercantilism as a tool to support sustainable economic development. The school of Mercantilism was based on the assumption that stable economic growth could be achieved through thrift rather than by the consumption of luxury goods by large segments of society. Therefore, initially, the luxury tax was supposed to limit the consumption of luxury goods by a non-elitist society (Thomas, 2008). However, with the growth of the entrepreneurial class and the spread of progressive demonstrative consumer behavior, beginning in Holland and later in England, an inherent financial component in the taxation of luxury goods also emerged. Not only luxury items such as jewelry, furs, and carriages could be taxed, but also servants, dogs, salt, and sparkling wine (Germany).

In the 20th century, there were attempts to introduce a luxury tax in Austria and the United States (twice) for various reasons. In addition to generating revenue, luxury taxes have been used to discourage the consumption of certain goods that may be seen as harmful to society, such as tobacco and alcohol, but both countries decided eventually to abandon this type of tax. One of the aspects concludes the possible unintended consequences of the luxury tax imposition. In the United States, the luxury tax on yachts implemented in 1990 is known as a "job killer": it was blamed for a decline in the yacht-building industry and the loss of jobs in that sector. In response, the luxury tax was repealed in 1993[5].

[5] Kagan, J. What Is a Luxury Tax? Definition, How it Works, and Example. *Investopedia.* Retrieved May 15, 2023, from https://www.investopedia.com/terms/l/luxury_tax.asp

Generally, an introduction of the luxury tax is associated with exceeding the costs of collecting and administering the tax over the revenues from it. In addition, the analysis of a prior experience of this tax introduction in some countries suggests that the implementation of a higher luxury tax rate resulted in a significant decline in consumer expenditure when comparing the periods before and after its introduction (Kasim, 2020). Another potential issue with luxury taxes is that they can be difficult to enforce. For example, it can be difficult to determine what qualifies as a luxury item, and wealthy individuals may find ways to avoid paying taxes, such as by purchasing items in other countries or through tax loopholes. As such, there has been created a concept of luxury freeports, where luxury items can be stored tax-free (Helgadóttir, 2020).

Overall, the concept of luxury tax has a long and complex history, with proponents and opponents offering different perspectives on its effectiveness and fairness as a means of generating revenue and discouraging excessive consumption of luxury goods. Recently the discussion of world poverty has led to the development of the concept of a Global Luxury Tax. This concept revises the meaning of luxury: it is proposed to impose a tax not on expensive luxuries that are in single demand, but on goods that are in high demand and therefore have a large volume of transactions. The idea is to tax such transactions (financial transactions, mobile phone use, air travel) with a small tax per consumer, which in turn will have a cumulative effect and thus higher utility due to the mass nature of demand around the world (Mawe, Bufacchi, 2015).

While the Global Luxury Tax is still a concept, some governments have introduced luxury taxes on items such as high-end real estate, private jets, yachts, and luxury cars in recent years. These taxes are often seen as a way to address income inequality by targeting the wealthy and redistributing wealth to fund public services and social programs. Thus, while luxury taxes can provide a source of revenue for governments, they must be carefully implemented and balanced against potential unintended consequences.

The modern concept of luxury tax with national specific

Today, a luxury tax is applied in some countries around the world in two fundamental ways. The first one is a tax levied by the state on goods and services, considered to be luxury (as in Italy, Canada, and Russia) and the next is a tax based on the market value of assets owned by a taxpayer. This tax exists in the form of a progressive wealth tax in France. The idea behind imposing such a tax is that it will generate more profit for the state budget; it will burden only wealthier people, who are more likely to consume luxury goods thereby reducing the low- and middle-income classes' tax burden. A luxury tax could be a form of protectionism in inflating the prices of foreign luxury products and stimulating and supporting local production.

As far as political motives of a luxury tax imposition are concerned, usually governments enforce this tax to fund large expenses (commonly sudden ones) without raising taxes for the general population. Considering the state of the Belarussian national budget, since 2020 there have been plans for a budget deficit every year in comparison to a planned budget surplus in previous years.[6] The projected fiscal deficit or surplus of the Republic of Belarus since 2015 is shown in Figure 3.

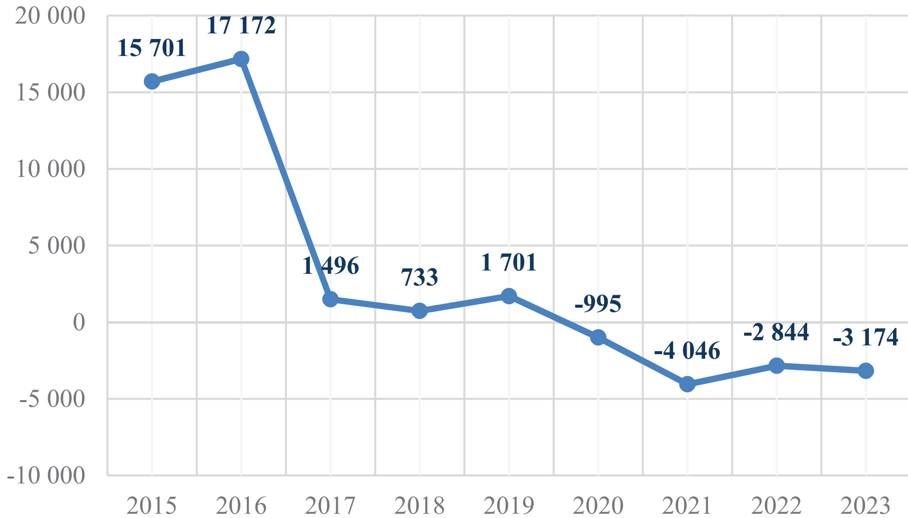

Figure 3. Planned budget surplus /deficit of the Republic of Belarus, mln. BYN
Source: author's elaboration.

The present situation requires the government to look at other ways to increase the budget. One option is to increase taxes, notably by introducing a luxury tax, which could have a positive impact on the state's finances. Andrei Savinykh, the Chairman of the Standing Committee on International Affairs of the House of Representatives, suggests that a progressive personal income tax scale would be more suitable than the current flat scale. However, the Republic of Belarus has already tried a progressive rate scale in the past, ranging from 9 to 30 %, which was abandoned due to high administrative costs and the possibility of citizens and organizations hiding their income to avoid higher taxes. The Tax Ministry reported that, after transitioning to a flat scale, there was an increase in tax revenue in the first year and a reduction in unreported income[7].

However, the issue of the necessity of introducing a luxury tax and the potential increase in state budget revenue resulting from this tax requires an analysis of the luxury goods market in the Republic of Belarus and the ability

[6] Laws of the Republic of Belarus on the Republican budget for the regular financial year and decisions of the Council of Ministers of the Republic of Belarus on measures for their implementation. *The Ministry of the Finance of the Republic of Belarus.* (In Russ.). Retrieved April 17, 2023, from https://www.minfin.gov.by/ru/budgetary_policy/budgetary_legislation/da8d2db88c99a337.html

[7] *There may appear a "luxury tax" in Belarus.* Belta. (In Russ.). Retrieved October 19, 2022, from https://www.belta.by/economics/view/v-belarusi-mozhet-pojavitsja-nalog-na-bogatstvo-467158-2021/

of the population to consume those goods. For a better assessment of such a tax introduction feasibility, it is reasonable to make a comparison with the Russian luxury goods market.

In 2020, the premium car market in Russia amounted to more than 3 million cars, representing 7 % of all passenger cars in the country.[8] The situation has changed by 2022, due to the sanctions, which have reduced sales of new premium car models by 89 % in relation to the previous year, 2021.[9] In order to support the economic well-being of citizens under sanctions, amendments have been made to the tax code in respect of the multiplier for passenger cars purchased from 1 January 2022: the threshold for the value of cars subject to the luxury tax has been raised from 3 million rubles to 10 million rubles. At the same time, the list of cars with an average value of 10 million rubles or more that fall under the luxury tax was extended to include 104 additional models.[10] Despite the stagnation of demand in 2022, thanks to parallel import channels, by February 2023 an increase in sales of traditional premium car brands (of which Mercedes-Benz, Tesla, and BMW were the predominant ones) was noted. Therefore, it can be concluded that in the case of the Russian premium car market, the luxury tax will continue to contribute to the federal budget[11].

At the same time, the situation in the Belarussian premium car market is radically different from the neighboring market. The Republic of Belarus had only 2,289 premium cars at the beginning of 2020. Among those models the most popular ones were Porsche (1.411) and Cadillac (662), while more expensive brands were presented in single numbers: Lamborghini — 2, Maybach — 2, Rolls Royce — 5, Aston Martin — 11, Maserati — 37, Bentley — 78, GMC — 81.[12] Meanwhile, the majority of the population preferred budget car brands, which cannot be considered “luxury goods” and, therefore are not subject to a luxury tax.

Regarding the real estate market, the situation in the Russian and Belorussian markets differs as well. Although the luxury tax is applied to the car market, Russia has introduced a progressive tax rate on real estate, which ranges from 0.1 to 2 %. The highest rate is imposed on real estate with a cadastral value exceeding 300 million rubles. Moreover, real estate falling

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[8] Luzina, M. (2020, November 20). How many premium cars are there in Russia. *Analytical agency Avtostat.* (In Russ.). Retrieved November 25, 2022, from https://www.autostat.ru/news/46374/

[9] Mingazov, S. (2022, June 8). The share of premium cars in sales in Russia has fallen by 89 % year to year. *Forbes.ru.* (In Russ.). Retrieved April 27, 2023, from https://www.forbes.ru/biznes/468085-dola-premial-nyh-avtomobilej-v-prodazah-v-rossii-upala-na-89-god-k-godu

[10] Individuals and self-employed persons. *Federal Tax Service.* (In Russ.). Retrieved April 27, 2023, from https://www.nalog.gov.ru/rn77/taxation/taxes/tr_ul/transport_fl/

[11] “Otkritie Auto”: Sales of ten traditional premium brands rose in Russia in February. *Bank “Otkritie.”* (2023, March 15). (In Russ.). Retrieved May 2, 2023, from https://www.open.ru/about/press/47911

[12] The availability of passenger cars to the population. *Belta*. (In Russ.). Retrieved May 14, 2023, from https://www.belta.by/infographica/view/obespechennost-naselenija-legkovymi-avtomobiljami-22628/

into this category is not subject to any form of tax relief, with the exception of garages and car spaces located in such taxable properties.[13] Speaking about the demand in the real estate market, whereas in Russia it came to a standstill in 2022 (for example, the demand for new elite housing in Moscow dropped by 55 %), in the Belarusian market, the number of real estate purchases started to decline as early as 2020.[14]

Real estate prices in Belarus experienced a 20 % drop in value in US dollars between March 2020 and October 2022 (from 1,477 USD/m² in March 2020 to 1,170 USD/m² in October 2022), while in Belarusian rubles, the decrease was only about 9 % (from 3,278 BYN/m² in March 2020 to 2,986 BYN/m² in October 2022 — roughly by 9 %), likely due to the devaluation of the national currency. Although by March 2023, the increase in US dollar terms was only about USD 80 per square meter, the prices for real estate in Belarusian rubles had fully recovered (3.570 BYN/ m² as of March 2023), reflecting the significant strengthening of the dollar on global markets in 2022, which affected real estate prices in Belarus.[15] Such an increase in prices in Belarusian rubles can negatively affect demand, especially considering that the population's salary is linked to the Belarusian ruble, but not to the US dollar.

Another factor that may reduce demand for real estate is an increase in the real estate tax rate effective January 2023. At the same time, the number of apartments in the market is increasing, significantly outpacing the purchasing power of the population. Moreover, in addition to recovered high real estate prices, people are not acquiring apartments either due to lower income or due to their negative expectations regarding economic stability.

According to the data above, despite the wide range of real estate available, people buy neither ordinary apartments nor luxury ones.

One potential determinant of luxury goods consumption in Belarus is the proportion of individuals who possess sufficient purchasing power to acquire such products. From 2017 onwards, Belarus has experienced a population decline, which has been partly driven by heightened emigration since 2020 (according to Belstat), particularly among middle and high-income workers. The dynamic in the population decline is reflected in Figure 4[16].

[13] Personal property tax. *Federal Tax Service.* (In Russ.). Retrieved May 14, 2023, from https://www.nalog.gov.ru/rn77/taxation/taxes/nnifz/

[14] Fedorova, N. (2023, January 19). Demand for new luxury flats in Moscow has halved. *RBC.* (In Russ.). Retrieved April 27, 2023, from https://www.rbc.ru/business/19/01/2023/63c526049a7947d0c3bccb98

[15] Dynamics of real estate prices in Minsk from 04.09.2005 to 20.03.2023. *City as a whole. Price per m². Realt.by Real estate.* (In Russ.). Retrieved March 20, 2023, from https://realt.by/nc/statistics/dynamics///933/

[16] Statistical publications. National statistical committee of The Republic of Belarus. (In Russ.). Retrieved April 20, 2023, from https://www.belstat.gov.by/ofitsialnaya-statistika/solialnaya-sfera/naselenie-i-migratsiya/migratsiya/statisticheskie-izdaniya/

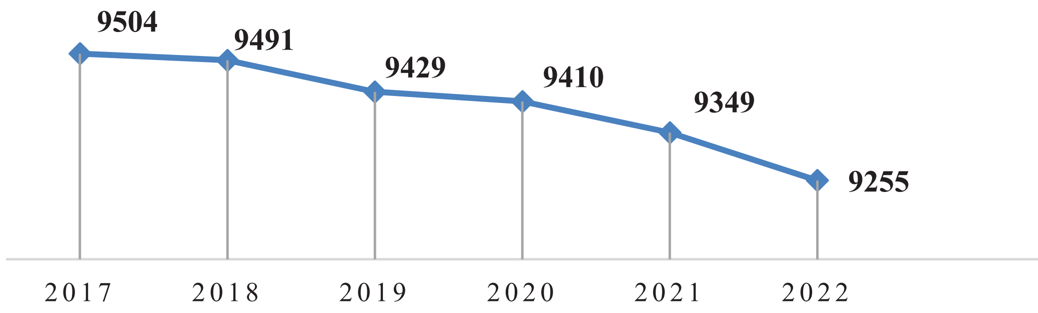

Figure 4. The decline in the amount of population of the Republic of Belarus. Mln of people at the beginning of the year

Source: author's elaboration.

Given that this demographic group constitutes the primary source of demand for luxury goods, it is possible that such goods may not enjoy substantial demand within Belarus.

Another issue to be contemplated in the context of the introduction of a luxury tax in the Republic of Belarus in the form of a progressive tax is changes in the real disposable money income of the population. It is worth noting an important clarification connected with luxury goods that are subject to the luxury tax. Those types of goods are referred to as Veblen goods, meaning, the demand for them increases with the increase in prices, which happens as the tax rises (Lu, 2012). Thus, in terms of the impact on the taxpayer, the luxury tax can be considered unburdening since it applies to goods that are primarily valued for their exchange value rather than for their inherent consumption benefits. Individuals consume or possess these goods as a means to demonstrate their wealth, utilize them as assets, or present them as valuable gifts (Ng, 2022b). Yet, by definition, Veblen goods have a high-income elasticity of demand and are very sensitive to consumer income changes in relation to the amount of goods demanded.

Statistics indicate that there has been a decline in the real disposable income in percentage to the previous periods since January 2021. During the reporting periods Jan-Jun 2022 till Jan-Mar 2023, the percentage of real disposable income fell under 100 % (97,3, 96,2, 96,4, and 99,1 % respectively) in comparison to the previous ones. Only during the reporting period Jan-Mar 2023, there can be noticed an increase in the real disposable income, crossing the border of 100 % (yet there is still not enough statistical data to claim the beginning of a steady real disposable income growth)[1]. Table 1 illustrates the dynamics in a percentage change of the real disposable income of the population from the reporting period to the reporting period. As long as luxury goods have a high-income elasticity of demand and the trend for the real disposable money income of the population approaches downwards, it is rational to conclude that the demand for luxury goods will decrease if not disappears, for the most part, making the luxury tax introduction unreasonable.

Table 1

Real disposable money income as a percent of the previous period[17]

The territory of the Republic of Belarus	2021					2022					2023	
	Jan	Jan-Mar	Jan-Jun	Jan-Sept	Jan-Dec	Jan	Jan-Mar	Jan-Jun	Jan-Sept	Jan-Dec	Jan	Jan- Mar
Republic of Belarus	103.8	102.7	103.4	102.6	102.1	100.4	100.2	97.3	96.2	96.4	99.1	100.3
Brest region	-	102.1	102.4	101.9	101.6	-	99.2	97.4	97.0	97.6	-	105.6
Vitebsk region	-	101.9	101.9	101.3	101.1	-	97.9	96.1	96.0	96.5	-	103.6
Gomel region	-	103.7	104.0	103.2	103.2	-	100.2	97.9	96.8	97.0	-	103.8
Grodno region	-	103.1	103.7	102.6	102.0	-	99.1	97.5	97.2	97.6	-	105.4
Minsk, city	-	103.0	103.8	102.9	102.3	-	102.3	98.0	95.7	95.5	-	92.6
Minsk region	-	102.8	104.1	103.3	103.0	-	100.1	96.9	96.0	96.5	-	103.9
Mogilev region	-	102.0	102.6	101.8	101.1	-	97.5	95.5	95.3	96.3	-	103.6

Source: author's elaboration.

[17] Real disposable money income as percent to previous period. *National statistical committee of The Republic of Belarus: Interactive business intelligence system for distribution of official statistical information. (In Russ.).* Retrieved June 25, 2023, from http://dataportal.belstat.gov.by/Indicators/Preview?key = 127415

Conclusions

Luxury tax is a type of tax that is imposed on luxury goods or services that are considered non-essential or discretionary. While there have been some studies conducted on luxury tax, the findings are somewhat mixed. Luxury tax can decrease demand for luxury goods: research has shown that when luxury taxes are imposed on goods, it can lead to a decrease in demand for those goods. This is because luxury taxes increase the cost of luxury goods, which by their nature are Veblen goods. This finding is consistent with the definition of the nature of Veblen goods that when the price of a good increases, demand for that good may drastically decrease due to the high income-elasticity of demand.

Luxury tax can have negative effects on the economy. This is because luxury goods often come from high-end manufacturers, and when demand for these goods decreases, it can lead to job losses and reduced economic growth. Additionally, luxury taxes can reduce consumer spending and discourage investment in luxury markets.

One of the main arguments in favor of luxury tax is that it can generate revenue for the government. Research has shown that luxury tax can indeed generate revenue, although the amount of revenue generated depends on the specific tax rate and the types of goods and services that are being taxed. Luxury tax can be difficult to implement, as it requires defining what is considered a luxury good or service. Additionally, luxury taxes can be subject to loopholes and evasion by consumers, as well as legal challenges by manufacturers and retailers. Considering the socio-economic impact of the tax, it shouldn't be perceived as "unfair", since the idea behind its implementation is not to disproportionally affect certain groups of people in terms of their income cutbacks: it should be paid by those groups of people, who can afford it.

Overall, the research on luxury tax suggests that it can have both positive and negative effects, and the specific impact will depend on a variety of factors, including the specific tax rate, the types of goods and services being taxed, and the economic conditions of the country implementing the tax.

Considering the situation in the Republic of Belarus, although during recent years there has been a budget deficit and there is a necessity to find new sources of state income, the answer to the question of whether a luxury tax needs to be introduced is "no". Such types of taxes are mostly imposed in highly developed countries where people can afford "luxury" goods and the variety of such goods is higher, as can be observed in the example with the Russian luxury goods market. According to the latest data, budget brands of cars prevail in Belarus, and expensive foreign cars are imported in single numbers (if imported at all). As for the real estate market, it is facing a decline in demand, which may decrease even further due to a higher real estate tax rate introduction, growing prices, and negative expectations of the population. This way, there are rather a few amounts of luxury goods to become subject to the luxury tax, the administration of which will bring even more losses, rather than profit. Whereas the number of people whose purchasing power would allow them to buy luxury goods is decreasing. Moreover, the real disposable income of Belarusians has also declined, making it less likely that Belarusians will spend money on the consumption of luxury goods.

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