The Impact and Significance of the Enacted Legislation on Luxury Tax

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Luxury Tax Will Soon Take Effect

In response to deepening public resentment toward skyrocketing house prices, the Executive Yuan had proposed the Selective Goods and Services Sales Tax Act (the so-called "luxury tax Act") and the Legislative Yuan passed the third reading of the bill at the fastest speed. The law will come into effect on June 1 the earliest after the Ministry of the Interior has coordinated related levy details. The act targets short-term property market speculators, imposing a tax of 15% on the actual sales price of non-self-use housing units and land sold within less than one year of purchase and a tax of 10% on properties held for over one year and less than two years. The bill would also impose a tax on purchases of "special items" such as cars, yachts, aircraft, helicopters, and light planes valued at more than NT$3 million and turtle shells, hawksbill turtle products, ivory, fur and leather products, and designer furniture valued at NT$500,000 or more. The Ministry of Finance estimated the luxury tax will generate nearly NT$15 billion of revenue every year and stated the income will be used for social welfare purposes.

Where the Government has a Policy, There Counter-Strategies Will be

This luxury tax policy pleases the public, who have suffered from soaring house prices, have regarded the tax regime that burdens the fixed-income class as unfair, and have been embittered by the rapidly widening gap between rich and poor. However, it is questionable whether the luxury tax can effectively curb speculations, alleviate the pain of house purchases caused by high property prices, and reduce the negative feelings triggered by the widening gap between rich and poor, the tax regime that imposes unfair burdens, and the strong sense of relative deprivation.

In these days before the luxury tax takes effect, inquiries about properties have poured in and imported luxury cars are seriously short of supply and cannot meet the demand because consumers have been in a rush to buy them before the luxury tax comes into effect. Property buyers with deep pockets grasp opportunities available before the launch of the tax to purchase and use the tax as a bargaining chip to slash prices, because they know sellers are now much more willing to reduce prices in order that they may make more profits in time. The luxury tax has also heated up property transactions particularly in key districts in downtown Taipei City, where the property market remains buoyant and property values are still likely to rise further. Moreover, in response to the luxury tax, car dealers have not only imported vehicles earlier than scheduled in order to sell them before the implementation of the tax, but have also come up with tax avoidance strategies such as technically lowering the prices of cars that were originally valued at higher than the NT$3 million threshold, so that no luxury tax can be levied on these cars.

The luxury tax bill has several flaws. For example, it does not stipulate the registration of actual sales prices sold, does not appoint buyers as collecting agents of luxury tax, nor does it demand buyers to show luxury tax payment certificates as a premise to proceed with ownership transfer. These reveal that the levying of luxury tax will have multiple loopholes. What's more, the luxury tax Act does not encompass pre-sales houses, allows yachts to be registered in foreign countries, and leaves room for a buyer to rent a property for two years before he or she purchases it from the landlord (in this way the buyer won't have to pay luxury tax). The numerous loopholes in this bill have created a phenomenon best described as "where the government has a policy, there counter-strategies will be," will increase the difficulty of levying and auditing the tax, and will result in deadweight losses in the society due to tax avoidance and evasion.

House Prices are Related to the Interest-rate Environment

An observation from the prospective of macroeconomics suggests that both house and commodity prices are related to a low interest-rate financial environment. After the global financial crisis in 2008, Taiwan's Central Bank (CBC) has tried to stimulate economic growth through a low interest-rate environment created under its loose monetary policy. Although the bank has gradually raised interest rates after the second quarter of 2010 and has done it four times so far, interest rates levels raised are still limited and the rediscount rate has only reached 1.75% because the recovery of the global economy has been weak. The United States has implemented QE2 (the second round of quantitative easing) "printing money to save the market," which has caused hot money to flood toward Asian countries. In order to maintain the stability of the New Taiwan Dollar (NTD) exchange rates and prevent excessive appreciation of the currency from affecting Taiwan's export competitiveness, the CBC has seen its annual money supply growth rates mounting as hot money flows in and the appreciation of NTD exchange rates remains limited. Although the CBC has tried to monitor and control hot money by means of moral persuasion and to sterilize excessive capital flows by open market operations, the high annual money supply growth rates mean that an undue volume of currency is pursuing limited commodities, which surely leads to rising commodity and house prices. The search for solutions to problems caused by high house and commodity prices necessitates a review of the monetary policy. As the global economy warms up, market interest rates rebound, and the costs of borrowing capital increase, the house price problem will gradually ease up. This can be seen in the so-called "soft-landing" concept.

The Effectiveness of the Policy Remains to be Observed

The luxury tax will go into effect soon, but it is questionable whether this control and adjustment measure will lower and stabilize house prices. As "where there is a policy, there counter-strategies will be," various kinds of stratagems to evade the tax have emerged one after another. As the result, it remains to be observed whether the impact of the luxury tax policy can effectively solve the problem of house prices. Addressing the crisis of an inflating house and property price bubble will require the coordination of monetary policy and related administrative and control measures, while the integration of a comprehensive public housing policy and related social welfare measures is necessary for solving the housing problem of low-income people. In contrast to carefully planned and pragmatic public policies, the luxury tax policy has been driven by a political reckoning to please public opinions, appears to be rather opportunistic, and is even subject to the blame of manipulating populism and taking advantage of public opinions. Whether public opinions will levy a "luxury tax" on the ruling party for its political opportunism and untruthful policy will be shown by whether the party will lose votes in the coming elections.