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The Luxury of Putin's Tax Not Yet Defined

By Roland Oliphant

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"Opulence. I has it," says the caricatured Russian oligarch in the advert.

An extravagant mansion on Rublyovka, a Bentley in the garage and a yacht on the Mediterranean. For years, these trophies of conspicuous consumption have been a defining feature — and even a necessity — for Russia's new rich.

But the infamous opulence of the Russian rich has come under fire from an unlikely source — Prime Minister Vladimir Putin.

Putin proposed a tax on what he called "prestigious consumption" in an article outlining his economic program that he published in Vedomosti on Jan. 30.

"Key steps should be taken this year so that next year owners of expensive houses and cars pay more tax," he wrote, adding that care should be taken to guarantee that the new tax does

not hit the middle class.

He later expanded on the concept at a round table with the Russian Union of Industrialists and Entrepreneurs, where he said the tax should become "a form of publicly recognized payment for refusing to invest in development in favor of overconsumption and vanity."

To ensure minimal impact on business, the tax would only be paid by private individuals. Putin has suggested that economics is a minor concern. He went on the record as saying it would have "minimal fiscal significance," describing the proposed tax as a "moral-ethical" measure.

The idea is popular. All the parties in the State Duma have backed the idea, and even billionaire presidential candidate Mikhail Prokhorov, who knows a thing or two about luxury, has endorsed the notion — along with tax hikes on tobacco and alcohol — as part of his platform.

But it presents a conceptual question: How do you tax an abstract noun?

The first clue as to how the new tax on vanity might look came Friday, when Finance Minister Anton Siluanov revealed that the first taxes, targeting yachts, expensive cars and houses, might be introduced in 2013.

Luxury car owners will likely pay a higher rate of transportation tax, while the levy on luxury homes will be raised via a progressive property tax, he said. "The more expensive the property, the higher the tax," Siluanov said.

That idea is not actually new — the Federal Service of State Registration, Cadastre and Cartography is already conducting a nationwide valuation of property in preparation for a new Unified Property Tax, which would charge homeowners a levy based on the market value of their homes.

Putin suggested in 2009 that the new tax rate should be higher for those owning expensive apartments or large plots of land.

Sergei Guriev, rector of the New Economic School in Moscow, said taxing an abstract noun like "luxury" or "vanity" was not as outlandish as it sounds.

"It's completely reasonable and doable," Guriev told The Moscow Times. "This is an undertaxed base, and this is a good way of raising revenues without impacting on business incentives or distorting the economy."

Guriev described the move as a useful alternative to a progressive income tax — abolished by Putin in 2001 in an effort to put an end to chronic tax evasion.

"Conspicuous consumption is by definition conspicuous. It's not easy to hide," Guriev pointed out. Returning to an actual progressive income tax would still be premature, he added — income is still too easy to hide.

Luxury car and yacht dealers contacted by The Moscow Times were relaxed about the proposed law, partly because the details remain so hazy.

"We've heard about it, but it's too early for us to comment. We haven't gauged the reaction of our clients yet," said Sergei Medyukh of Bentley Motors in Moscow.

The luxury dealership sold about 160 of the iconic motors in 2011 and hopes to increase that number this year.

"I read about it maybe a couple of months ago on the Internet. But it's too early really to comment," he said.

Asked if he saw a threat to his business, Alexei Torsky of Premium Yacht gave a categorical "no."

"Less and less of our business is in Russia. Lots of our clients buy and keep their boats on the Mediterranean. So whatever tax there is in Russia doesn't really make a difference," said Torsky, who also said he had heard of the idea but could not comment on the details.

That was just one of the practicalities that Deputy Finance Minister Sergei Shatalov raised at a round table on the subject last week.

"Before discussing an actual tax, we need to understand the details. Who pays, what do they pay for, what is 'luxury' or 'wealth,' who qualifies, in what way, can the state administer such a tax, how much will it be worth to the state, and how do you establish the base?" he said.

And some legal experts hinted that the latest proposals would be unworkable given the current state of Russian legislation.

"It could be a great law, maybe in two, or maybe in 25 years. But 2013 is too soon. There are just too many loopholes in Russian legislation," said Sergei Gorbilev, a lawyer at Yukov, Khrenov & Partners.

The easy way around a tax on personal property is to establish a new company or other legal entity and transfer one's home, yacht or luxury car to it, Gorbilev said. And it is men of true opulence who are likely to have the knowledge, connections and legal advice to do so.

"And you don't even have to set up a company. You could just not declare your luxuries," said Gorbilev, pointing to the way public officials who publicly declare very modest incomes often turn out to have incredibly wealthy wives and children.

And then again, what is a luxury anyway?

"When they tried similar laws in the United States and Norway at the beginning of last century, they found that what counts as a luxury changes over time. For example, at the moment a Bentley is a luxury. But what if in a few years maybe it would become accessible to many more people? Then you're in favor of lots of people who are basically middle class paying a tax, and you're impacting the middle class," Gorbilev said.

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