Journal of Infrastructure, Policy and Development 2024, 8(14), 7279.
https://doi.org/10.24294/jipd7279

Article

How to decline inequality: A taxation study on the luxury goods market

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CITATION

Lozhnikova A, Kichko N, Xu Y, Ilina T. (2024). How to decline inequality: A taxation study on the luxury goods market. Journal of Infrastructure, Policy and Development. 8(14): 7279.
https://doi.org/10.24294/jipd7279

ARTICLE INFO

Received: 21 June 2024
Accepted: 25 July 2024
Available online: 4 December 2024

Abstract: This article investigates the income and expenditure patterns of individuals, with a specific focus on investments in luxury items, real estate, and expensive modes of transportation. Using global databases such as "Luxury Goods—Worldwide/Statista Market Forecast" and "Data—WID—World Inequality Database", the authors explore the correlation between high demand for luxury items and economic inequality. The study emphasizes the role of luxury tax as essential for implementing a progressive personal income tax system in Russia. By examining country-specific factors, particularly in China and Russia, and conducting a comparative analysis of progressive tax systems globally, the research highlights the potential of luxury tax to enhance the efficacy of income tax in reducing inequality.

Keywords: indirect taxes; tax on luxury; luxury goods market; luxury wealth distribution; social stratification

1. Introduction

According to the World Inequality Report by the World Inequality Lab, a notable development is the identification of a breaking point in the long-term trend of income inequality since the 1980s. Research from the Paris School of Economics indicates that since 1980, income inequality has rapidly increased in North America and Asia, moderately increased in Europe, and stabilized at very high levels in the Middle East, Africa, and Brazil. Consequently, the team led by Thomas Piketty identified the following trend: The bottom 50% of the population in Asia has experienced significant income growth in the 21st century, particularly in recent decades. This growth is primarily attributed to the relocation of goods production from Europe and the USA to Asia since the late 20th century, which contributed to economic growth. The World Inequality Report highlights substantial differences in the socio-economic development of China and India. Since 2006, China has proposed an alternative approach to managing globalization and its effects on inequality. Piketty's latest thesis is supported by Italian researcher Berry: "Yet it seems more plausible to see luxury expenditure as a symptom rather than a cause of economic inequality or the iniquity of capitalism (Berry, 2022; McNeil and Riello, 2016)". It is important to note that the issue lies not only in China's contemporary choice of an alternative economic model, socialism with Chinese characteristics. Ancient Chinese traditions also contribute to reducing inequality. Confucianism, for instance, viewed the luxurious spending of the wealthy as a mechanism for wealth transfer, whereas the extravagance of the European nobility aimed at maintaining the hierarchical structure of society and social stratification (Peng and Chang, 2012).

Russia is not yet noticeable in the World Inequality Lab among countries with a significant reversal of the previous trend of deepening economic inequality, but

Perestroika in the 1990s made it one of the major players in the global luxury market. To prove this thesis, besides the empirical experience of the Russian co-authors of the article, let us quote just one citation from the presentation of the book "Luxury. A Rich History, Peter McNeil and Giorgio Riello, 2016": "The first ever global history of luxury, from Roman villas to Russian oligarchs" (McNeil and Riello, 2016; Millet, 2016). Why, then, do the luxury expenses of the rich in Russia not work as a mechanism for wealth transfer to the poor population, and how does this mechanism work primarily in China and other countries of the world? We will seek answers to these questions within the framework of this study.

2. Methods and approaches

This article relies on fundamental principles of economic theory. In the neoclassical model, steady-state economic growth is driven by exogenous factors like population dynamics and technological progress. Fiscal policy is thought to influence economic growth rates primarily during the transition to a steady state. Hence, in the neoclassical model, differences in tax systems, government spending, and debt policies are not considered determinants of long-term economic growth rates. Neoclassical economics views government intervention negatively, arguing that tax collection distorts economic decision-making. From an economic development perspective, the critical choice is between current and future consumption. If income taxation reduces investment incentives, it hampers economic growth. With the rise of endogenous growth models, new mechanisms affecting sustainable development dynamics have been studied, highlighting the state's crucial role in these processes. Consequently, state fiscal policy is now seen as a key determinant of sustainable economic growth dynamics. Consumption and property taxes seem to contribute more to high long-term GDP per capita levels than profit taxes. Research also indicates that shifting towards property taxes is more conducive to economic growth than relying on consumption taxes. However, property taxes are a heterogeneous group; further differentiation between real estate taxes and other property taxes may help identify the key factor behind their positive impact on economic growth. Research shows that current real estate taxes contribute most significantly to economic growth.

In his seminal work "The General Theory of Employment, Interest, and Money", John Maynard Keynes disagreed with the classical school's non-interventionist stance, arguing that markets are unstable and not self-regulating. He prioritized regulating aggregate demand to increase its overall effectiveness. By "effective demand", Keynes referred to potentially likely and government-motivated demand. Keynes primarily favored fiscal policy measures. According to Keynesian "prescriptions", budget deficit policies should stimulate aggregate demand, primarily driven by consumer spending and investment demand. Thus, increasing government expenditures, investments, and purchases, while reducing taxes, can enrich demand, increase household incomes, and stimulate employment. The expenditure side of the budget would be compensated by tax revenues from increased production and employment. Keynes placed secondary importance on monetary policy compared to fiscal policy.

Monetarism, which was also spurred by crisis phenomena, opposes Keynesianism. Monetarism is a comprehensive theory that offers a specific approach

to economic regulation through monetary policy tools. The school's founder, Milton Friedman, argued that prices serve as the primary regulator and that the priority of economic policy should be regulating the money supply to control inflation.

Scholars correctly link tax policy with changes in national economic management principles. Tax reforms can aid in reorganizing the economic mechanisms of state management and support the transition to a new economic system. For example, China's tax system development can be divided into four stages: the first stage (1953–1977) involved changes in the economic structure and tax administration; the second stage (1978–1993) marked the transition from a planned to a market economy, with various tax instruments (benefits, tax deductions); the third stage (1994–2005) saw radical changes in the tax system (tax centralization) and the development of unified tax and accounting standards, along with incentive tools in tax policy; the fourth stage (2006–present) involved tax reforms during and after the global crisis. The 1994 reform categorized all taxes in China into three groups: 1) central taxes, including customs duties, VAT, consumption tax, business tax, taxes on financial institutions, state-owned enterprises, and foreign corporations; 2) joint taxes, including VAT, resource tax, securities tax, business tax from specialized banks, and insurance companies; 3) local taxes, including profit tax, business tax from other activities, real estate tax, individual income tax, stamp duties, and others. Chinese researchers have focused on the peculiarities of taxation and the evolution of corporate tax. During the transition to a market economy, a notable feature of Chinese tax reforms has been their gradual and cautious approach, balancing planned economic transformations. The ongoing tax reforms in China aim to create a bipolar tax structure, with corporate profit tax and individual income tax as core elements, while other taxes play a supplementary role.

Property taxes, including property tax, transportation tax, and land tax, are significant and stable sources of sub-federal and local budget revenues. In most countries, these taxes are allocated to regional and local budgets. In Canada, Israel, South Korea, the UK, and the USA, property tax revenues account for more than 10% of total tax revenues (Ramos, 2011). The highest shares of GDP from property taxes are in Belgium, Canada, France, Luxembourg, the USA, the UK, South Korea, and Israel (3%–4% of GDP). The distribution of the property tax burden between citizens and businesses varies. The highest burden on household property is in the UK, France, Switzerland, and Canada, while it is low in Austria, Germany, Poland, Turkey, and Japan.

Among property taxes, citizens pay regional transportation tax and local taxes, such as land tax and individual property tax. The political and economic independence of local authorities is crucial for the democratization of society. Therefore, the European Charter of Local Self-Government declares special tax autonomy for municipalities, ensured by state support and financial independence of local authorities. The essential principles for ensuring the financial independence of local governments include: sufficient financial resources proportional to their powers; freedom to manage these resources; receipt of funds from local taxes and fees; protection of weaker local governments through financial equalization; and provision of subsidies without undermining local government independence. No specific dependencies have been found in local tax autonomy. In some countries, local authorities have access to

revenues from only one tax (property or income tax), while in others, they have access to revenues from two or three local taxes.

Theoretically, tax autonomy is maximal when local authorities can determine both the tax base and tax rates without higher authority restrictions. Between these extremes, allowing local authorities to control their tax base is often administratively costly and associated with economic abuse risks. Therefore, the preferable option for local authorities is to use the existing tax base in the federation combined with locally determined tax rates. This minimizes administrative costs and risks of distortions in the tax base at the municipal level. Different variants of tax autonomy and their relative importance show significant differences between countries. The OECD classification identifies 11 categories (models) of tax autonomy. Fiscal federalism is typical for most economically developed countries, but it is marked by significant national differentiation in the categories of tax autonomy implemented at regional and local levels. Notably, fiscal federalism at the regional level is present in only ten OECD countries. The share of tax revenues from local tax autonomy models in OECD countries varies significantly: some implement only one model, while most have a predominant model, with some implementing several models.

This article focuses on individuals' income and expenditure, including their investments in luxury items, real estate, and expensive modes of transportation. The consumption of luxury goods has been studied for several centuries. Influenced by the mercantilist school, luxury tax was widely used in 17th-century Europe as an economic development tool. Mercantilists believed that stable economic growth could be achieved through frugality rather than the consumption of luxury goods by large segments of society. Consequently, luxury tax was designed to restrict the consumption of luxury items by non-elite members of society.

"Unlike other participants in the discussion, such as the Marquis de Mirabeau, Jean-Jacques Rousseau, Adam Smith, and David Hume, Stewart deliberately avoids talking about luxury as a means of ennobling or corrupting society" (Ramos, 2011). In "The Theory of Moral Sentiments", Adam Smith criticizes Mandeville's views, while Karl Marx admires the fable. In 1714, Mandeville published "The Fable of the Bees, or Private Vices, Public Benefits". The fable's moral is that individual vices benefit society (private vices—public benefits). This phrase, "private vices—public benefits", is known as Mandeville's paradox. In the 20th century, Keynes, one of the "doctors" treating the Great Depression, also called Mandeville his predecessor. In the previous section, we cited the 2016 book on luxury. The theory of luxury is also being developed in Russia, for example, by Professor A. Andreeva (Publications, 2024).

In light of ongoing tax reform in Russia and to identify best practices from various countries, we formulated and tested the following hypothesis using country-specific data on luxury taxes and personal income taxes: Is there a correlation between high demand for luxury goods among residents and deep economic inequality within those countries? In the 21st century, the World Inequality Lab, led by T. Piketty, has identified Russia, China, and the USA as countries with deep inequality in both labor income and capital.

Our approach involved data collection using global databases: Luxury Goods—Worldwide/Statista Market Forecast (Statista, 2024b) and Data—WID—World Inequality Database (WID, 2024).

The Luxury Goods—Worldwide/Statista Market Forecast database provides global data by country for the period 2017–2024. Key players in the luxury goods market listed on the database's main page include the USA, Russia, India, Singapore, and the United Kingdom. The database also mentions the impact of the Russian special operation on the global luxury goods market (Data shown is using current exchange rates and reflects market impacts of the Russia-Ukraine war). The top 5 countries in 2024, in terms of sales in billion USD, are projected to be: USA ($77,280), China ($56,080), Japan ($32,310), France ($19,120), and the UK ($17,200).

The Data—WID—World Inequality Database spans over 200 years. According to this database, Russia, the USA, and China are leaders in inequality. For Indicator 1, we use the top 1% income share, representing the excessively high percentage of income held by the top 1% annually. Indicator 2 measures the bottom 50% income share, representing the small percentage of income held by the bottom half of the population. Indicator 3 focuses on wealth inequality (total capital, including real estate, bank deposits, etc.), and Indicator 4 measures the bottom 50% wealth share, representing the insignificant share of wealth held by the bottom half of the population.

To test the hypothesis, we collected and analyzed data from the aforementioned databases, focusing on Russia and China, as well as other countries in the Union State (Russia-Belarus), the BRICS economic alliance, and the informal international group (G7). Additionally, we examine specific economic models: the Japanese-Rhineland capitalism model, integrating European and Japanese approaches, and the socialism with Chinese characteristics model, reflecting China's unique blend of socialism and market-oriented reforms. Describing the Japanese-Rhineland model (Albert, 2009; Piketty, 2017), Albert and Piketty emphasize that European and Japanese capitalism significantly differ from American capitalism. Akio Morita, founder of Sony, characterized the Japanese economy as a "market economy of a socialist pattern". The fundamental work describing the Japanese-Rhineland model of capitalism is Michel Albert's book "Capitalism Against Capitalism", where one of the founders of participatory economics links hopes for a better economic future with participatory co-management mechanisms between workers and owners, emphasizing the potential for collaborative economic governance to mitigate inequality and promote sustainable growth. In "Quiet Revolution in Welfare Economics", co-written with Robin Hahnel and published by Princeton University in 1990, the need to continue searching for allocative mechanisms is discussed.

We do not claim to resolve the debate on the model of socialism with Chinese characteristics (Huang, 2008). However, we will analyze Chinese approaches to applying direct and indirect taxes through the lens of the announced economic model of socialism with Chinese characteristics.

In search of wealth transfer mechanisms, the authors explore direct and indirect taxes. Notably, "it was found that countries with a higher degree of progressivity in their income tax systems generally enjoy higher levels of happiness" (Huang, 2008). However, we do not support the same authors' approach regarding the alternativeness of applying direct personal income tax and indirect luxury tax. We consider introducing a luxury tax in Russia a necessary step to achieve significant progress in reducing income inequality. The current tax reform discussion in Russia lacks focus on the important 0% rate, which would reduce the number of poor people. The modest

increase in the maximum rate (up to 22%) compared to the flat tax rate (13%) in the new progressive personal income tax system is clearly insufficient to mitigate severe inequality in Russia.

To study the evolution of luxury taxation, we used data from the legal reference systems ConsultantPlus and Pravo.ru, as well as luxury tax bills from the State Duma's official website. For statistical analysis, we examined data from official reports of the Federal Tax Service of Russia, including reports on the accrual and receipt of taxes, fees, insurance premiums, and other mandatory payments (Form 1-NM), as well as lists of passenger cars from the Ministry of Industry and Trade of the Russian Federation, and analytics from RBC on vehicle taxation specifics in Russian regions.

3. Results of country analysis on the luxury market and redistribution practices using the luxury tax tool

Statista Market Forecast employs the following approach: "The conceptual key to understanding luxury in marketing is exclusivity. This exclusivity is primarily maintained by high prices, but also through the deliberate limitation of sales volumes and points of sale. The Consumer Market Outlook covers highly exclusive personal items that convey the taste and status of their owners. These include clothing, footwear, leather accessories, eyewear, as well as watches, jewelry, and cosmetics". We include not only the items listed but also expensive means of transportation (cars, yachts, airplanes) and real estate as luxury goods. Thus, references to Statista (2024b) should be interpreted within their methodology, while other information was gathered from additional sources.

This section identifies country-specific factors influencing the positions of countries in the global luxury goods market, focusing on China and Russia.

Analysis of Luxury Goods Sales (2017 and 2024):

Table 1. Luxury goods sales worldwide by nationality (Billions USD).

Country/Region	2017 Sales	2024 Sales	Change	% Change
China	118.39	182.70	64.31	54.32%
Europe	81.18	90.20	9.02	11.11%
United States	66.53	73.30	6.77	10.18%
Japan	37.21	38.30	1.09	2.93%
Other Asia-Pacific	40.59	48.50	7.91	19.49%
Russia*	4.18	2.06	−2.12	−50.71%
Rest of World*	21.75	26.14	4.39	20.18%

Source: eMarketer (2018). Luxury Goods Sales Worldwide by Nationality. Retrieved from eMarketer.
*Statista (2017). Luxury Fashion Market Value in Russia. Retrieved from Statista.
*Statista (2024). Luxury Goods Market in Russia. Retrieved from Statista.

The analysis of luxury goods sales from 2017 to 2024, as shown in **Table 1**, highlights significant trends and changes in consumer behavior across various regions, focusing particularly on China and Russia.

Growth in Luxury Goods Consumption in China: In 2017, Chinese consumers spent $118.39 billion on luxury goods, projected to increase to $182.70 billion by 2024. This represents a significant growth of $64.31 billion, or 54.32%. This increase

underscores the expansion of the middle and upper classes in China, driving demand for luxury items (Remy and Kim, 2014). Notably, Chinese consumers' propensity to purchase luxury goods extends beyond their domestic market. Before the COVID-19 pandemic, approximately 70% of their luxury purchases were made abroad in countries such as Europe, the USA, and Japan (Morgan Stanley, 2023). This trend is expected to resume as travel restrictions ease, highlighting the global impact of Chinese luxury spending.

Decline in Luxury Goods Sales in Russia: Conversely, Russia has experienced a significant decline in luxury goods sales, from $4.18 billion in 2017 to $2.06 billion in 2024. This represents a decrease of $2.12 billion, or −50.71%. This sharp decline can be attributed to economic instability, sanctions, and changes in consumer spending patterns. The contraction of the luxury goods market in Russia underscores the challenges faced by luxury brands in this region (Statista, 2024b). Despite this, the Russian luxury goods market is expected to generate $2.06 billion in revenue in 2024 and grow at an annual rate of 1.89% (Statista, 2024c). The largest segment in this market is Prestige Cosmetics & Fragrances, estimated to reach $1.22 billion in 2024. Comparatively, the USA is projected to achieve the highest revenue, $77.28 billion in 2024. Per capita, the revenue of the Russian luxury goods market in 2024 is expected to be $14.32.

By 2024, 13.2% of total revenue in this market is expected to come from online sales. Despite economic challenges, the Russian luxury goods market is supported by the increasing purchasing power of the wealthy population.

In 2024, the luxury goods market revenue in the USA is projected to reach $77.28 billion, growing at an annual rate of 1.90% (Statista, 2024c, pp. 2024–2029). The largest segment is Luxury Fashion, with an estimated market size of $27.67 billion in 2024. Globally, the USA will lead in revenue, $77.28 billion in 2024. Per capita, the income generated in 2024 will be $226.10. By 2024, online sales are expected to account for 19.5% of total luxury market revenue. The USA continues to dominate the luxury goods market due to high consumer demand and a wealthy clientele.

In 2024, the luxury goods market in India is projected to generate $7.86 billion, growing at an annual rate of 1.34% (Statista, 2024c, pp. 2024–2029). The largest segment, similar to Russia, is Prestige Cosmetics & Fragrances, with an estimated market size of $2.28 billion in 2024. Globally, the USA will generate the highest revenue, $77.28 billion in 2024. Per capita, the income in India in 2024 is expected to be $5.45. By 2024, online sales are forecasted to contribute 2.6% of total luxury market revenue. Despite the growth of the middle class and increasing disposable income, the luxury goods market in India remains relatively small due to cultural preferences for traditional and handmade items.

The luxury goods market in Singapore is expected to generate $4.23 billion in revenue in 2024, growing at an annual rate of 3.36% (Statista, 2024c, pp. 2024–2029). The largest segment is Luxury Watches & Jewelry, with an estimated market size of $2.43 billion in 2024. Globally, the USA will lead in revenue, $77.28 billion in 2024. Per capita, the revenue in Singapore in 2024 is expected to be $698.80. By 2024, online sales are forecasted to account for 11.8% of total luxury market revenue. Singapore's luxury goods market is thriving, driven by high demand for elite fashion and luxury brands among the wealthy population.

In 2024, the luxury goods market in the United Kingdom is forecasted to generate $17.20 billion. The market is expected to grow at an annual rate of 4.05% (Statista, 2024c, pp. 2024–2029). The largest segment in this market is Luxury Fashion, with an estimated market size of $7.39 billion in 2024. Globally, the USA will lead in revenue, amounting to $77.28 billion in 2024. Per capita, each resident of the UK in 2024 will generate $253.10 in revenue. Additionally, by 2024, 20.1% of total luxury market revenue is expected to come from online sales. The United Kingdom's luxury goods market continues to prosper due to high demand for elite fashion and accessories among affluent consumers.

Global Trends and Comparisons: Europe, the USA, and China demonstrate steady growth in luxury goods sales. Sales in Europe are expected to increase from $81.18 billion in 2017 to $90.20 billion in 2024, an increase of 11.11%, while the USA is expected to grow from $66.53 billion to $73.30 billion, a growth of 10.18%. These figures reflect a stable economic situation and sustained consumer demand in these regions. The other Asia-Pacific region also shows notable growth: sales increased from $40.59 billion to $48.50 billion, an increase of 19.49%. This growth can be attributed to rising incomes and increasing demand for luxury goods in emerging markets (Statista, 2018, 2024a).

The chart (**Figure 1**) illustrates the ranking of countries whose populations lead as buyers in the luxury goods market. Notably, over the long-term period of 2017–2024, the ranking of countries in this list has remained unchanged. China occupies the first place, Europe the second, the USA the third, Japan the fourth, other Asian countries (such as India) the fifth, and Russia the sixth.

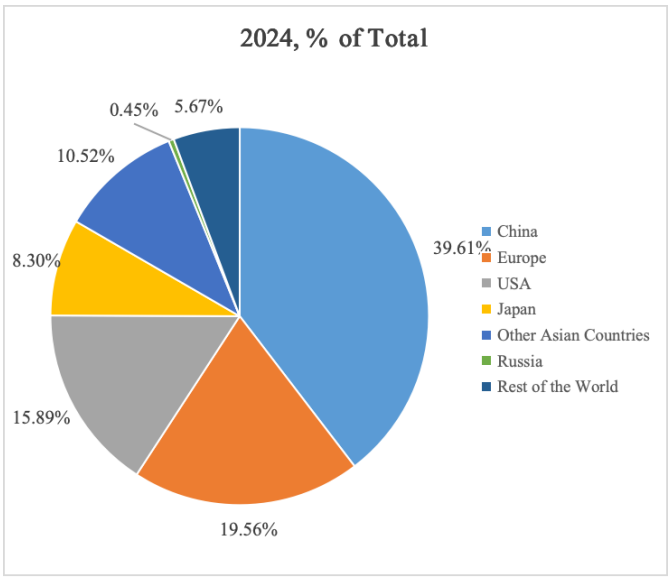

Figure 1. Global luxury goods market: Consumer country distribution for 2024.
Source: Calculated by the authors based on data from eMarketer. (2018).

4. Taxes on expensive vehicles as a form of luxury tax

In our research, a significant issue is the various forms of luxury tax. For example, in Canada, it functions as a straightforward luxury tax, while in France, it is introduced as an increased rate within the framework of progressive taxation on certain taxes,

such as property taxes. Additionally, the luxury tax can be applied as a percentage of the amount exceeding a certain threshold or as a percentage of the total purchase cost. Country-specific approaches to identifying goods as luxury items vary greatly depending on their cost and availability within the country.

Below, we outline and compare the approaches of different countries to vehicle taxation, focusing on the most expensive cars. Since 2014, Russia has seen a steady increase in vehicle tax collected. However, the share of vehicle tax in the overall budget system and the consolidated budget of Russia remains insignificant and has significantly declined in recent years. This decline may be attributed to changes in luxury vehicle taxation introduced in 2022.

We examine the historical development of this issue in Russia. The first legislative proposal in 2007 did not provide for a tax on expensive cars and other vehicles. The second version in 2010 proposed taxing personal transport worth more than 2 million rubles, but due to numerous deficiencies, it was sent back for revision. In 2012, a new bill was introduced in the State Duma, proposing to tax vehicles worth more than 3 million rubles on a progressive scale. In 2013, the Ministry of Economic Development of the Russian Federation and the Russian Union of Industrialists and Entrepreneurs proposed a version of the law classifying various types of transport-cars, yachts, airplanes, and helicopters-as luxury items. The revised bill was considered in the first reading by the State Duma in 2013 but was not adopted. Instead, a new law was passed, and changes were made to the existing vehicle tax by increasing tax rates on passenger cars. Thus, the luxury car tax is not a separate Russian tax but involves applying increased coefficients based on the car's cost and year of manufacture. The list of vehicles and their average cost is reviewed and published annually by the Ministry of Industry and Trade of the Russian Federation by March 31 (see **Table 2**).

Table 2. Changes in increased coefficients for vehicle tax in Russia from 2014 to 2024 (The company "ConsultantPlus", 2024).

Coefficient	Average Car Cost	Time Since Manufacture
Before 12/21/2017		
1.1	From 3 to 5 million rubles (inclusive)	2 to 3 years
1.3	From 3 to 5 million rubles (inclusive)	1 to 2 years
1.5	From 3 to 5 million rubles (inclusive)	No more than 1 year
2	From 5 to 10 million rubles (inclusive)	No more than 5 years
3	From 10 to 15 million rubles (inclusive)	No more than 10 years
3	From 15 million rubles (inclusive)	No more than 20 years
From 01/01/2018		
1.1	From 3 to 5 million rubles (inclusive)	No more than 3 years
2	From 5 to 10 million rubles (inclusive)	No more than 5 years
3	From 10 to 15 million rubles (inclusive)	No more than 10 years
3	From 15 million rubles (inclusive)	No more than 20 years
From 03/26/2022		
3	From 10 to 15 million rubles (inclusive)	No more than 10 years
3	From 15 million rubles (inclusive)	No more than 20 years

The valuation of vehicles in Russia for the application of the increased vehicle tax coefficient has been raised to 10 million rubles since 2022, reflecting the sharp rise in car prices. Over time, the progressive scale of increased coefficients has been abolished, leaving only a single coefficient of 3 from 2022 onward. This change can be attributed to the estimated nature of vehicle valuation, the lack of a detailed list from the Ministry of Industry and Trade, and insufficient development of the tax base, which complicates the decision-making process for applying the increased coefficient. Most vehicles in Russia are valued up to 3 million rubles, indicating that they are not considered luxury items and were thus excluded from the list in 2022. Furthermore, the continuous rise in car prices necessitates an annual review of the average car value for classification as luxury. According to Autostat, there has been a significant increase in the average weighted price of new cars in Russia: 40% from 2016 to 2020, 20% in 2021, 19% in 2022, and 24% in 2023 (Timerkhanov, 2020). The average weighted price reached 2.96 million rubles in 2023, while the average price of a new car, according to Avto.ru, rose to 3.7 million rubles (TACC, 2024). Additionally, the aging of the vehicle fleet is notable: nearly 60% of cars in Russia are over 10 years old, up from 51% in 2011 to 59% in 2021, leading to the exclusion of vehicles older than 10 years and valued between 10 and 15 million rubles from the scale. This trend should be considered in future tax policy development to encourage fleet renewal and domestic production growth.

Therefore, the current vehicle tax system in Russia will not significantly impact inequality levels. The least affluent citizens do not own expensive cars. Expensive vehicles owned by the wealthiest citizens were already subject to the increased vehicle tax coefficient when it was applied to values exceeding 3 million rubles. Consequently, the middle class benefits from the reduced tax burden. Since the tax burden on the least and most affluent citizens remains unchanged, it will not significantly affect the level of inequality.

The number of car models subject to the increased vehicle tax according to the Ministry of Industry and Trade of the Russian Federation in 2014 was only 191 models, but their number has gradually grown (see **Table 3**):

Table 3. Dynamics of the number of car models subject to luxury tax under vehicle tax according to the ministry of industry and trade of the Russian Federation from 2016 to 2024 (Ministry of Industry and Trade of Russia, 2024).

Car Cost (million rubles)	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
From 3 to 5	344	424	556	578	652	635	-	-	-
From 5 to 10	212	320	387	446	486	520	-	-	-
From 10 to 15	76	95	108	97	100	134	200	275	295
Over 15	40	70	75	73	82	101	145	174	222
Total	672	909	1126	1194	1320	1390	345	449	517
Total over 10	116	165	183	170	182	235	345	449	517
Annual Growth (%) of Luxury Cars (over 10 million rubles)	-	+42%	+11%	−8%	+7%	+29%	+47%	+30%	+15%
Growth from 2016 (%) of Luxury Cars over 10 million rubles	-	+42%	+58%	+47%	+57%	+103%	+197%	+287%	+346%

There has been a gradual shift towards more expensive cars costing over 10 million rubles, considered luxury items for most of the population. The increase in

their number for tax purposes from 2016 to the present is 356%. Taxation requirements have also evolved. Before 2019, the absence of a car brand in the list of the Ministry of Industry and Trade of the Russian Federation allowed non-payment of luxury tax. However, the list is now advisory, and if a brand or model is absent, it is not exempt from the increased vehicle tax based on legislative criteria (cost and year of manufacture).

Since the vehicle tax is regional, it is regulated by the laws of the constituent entities of the Russian Federation, with legislation allowing regions to independently adjust the tax rate.

Table 4. Base Rates for Passenger Cars by Engine Power (article 361 of the tax code of the Russian Federation) (Russian Federation, 2024):

Engine Power (Horsepower)	Base Tax Rate (%)
Up to 100 hp (up to 73.55 kW) inclusive	2.5
From 100 to 150 hp (from 73.55 to 110.33 kW) inclusive	3.5
From 150 to 200 hp (from 110.33 to 147.1 kW) inclusive	5
From 200 to 250 hp (from 147.1 to 183.9 kW) inclusive	7.5
Over 250 hp (more than 183.9 kW)	15

Source: Russian Federation (2024). Tax Code of the Russian Federation Article 361. Tax rates.

In Russia, for cars with engines over 250 horsepower, a uniform rate of 150 rubles per horsepower applies, multiplied by the number of horsepower and an additional coefficient (currently set at 3). However, regions have the right to increase or decrease the base rates and apply differentiated rates to each category of vehicles (**Table 4**).

Thus, there are significant differences in vehicle tax rates across regions of the Russian Federation. For example, according to information on property tax rates and benefits from the Federal Tax Service (FNS) of Russia, in 2023, the lowest vehicle tax rates for cars over 250 horsepower were in Ingushetia, ranging from 5 to 40 rubles per horsepower, while in the northern regions of Russia, they were much higher-in Magadan: 45 rubles, and in Transbaikalia: 65 rubles. In Moscow, a car with 250 horsepower or more was taxed at a rate of 150 rubles per horsepower. According to the legal information system "Pravo.ru", in 2020, the vehicle tax difference for a Mercedes-Benz (612 hp) was significant: in Moscow (92,000 rubles) compared to Bryansk region (80,000 rubles), and even more pronounced in the Nenets Autonomous Okrug (30,000 rubles).

The most attractive regions for luxury car owners are: for cars with engines up to 100 horsepower: Orenburg, Kaliningrad, and Sverdlovsk regions; and for cars with engines over 100 horsepower: Ingushetia, Chechnya, Dagestan, Sevastopol, and Khanty-Mansi Autonomous Okrug. The least attractive regions are: for cars with engines up to 100 horsepower: Bashkortostan, Mari El, Perm Krai, and Saint Petersburg; and for cars with engines over 100 horsepower: Tatarstan, Bashkortostan, Mari El, Perm Krai, Saint Petersburg, Karelia, Oryol, and Leningrad regions.

In addition to varying tax rates, regions can establish additional benefits, affecting the final amount of tax payments. The main categories of vehicle owners eligible for benefits in regions include pensioners, Heroes of the Soviet Union, Heroes of Socialist Labor, Heroes of Russia, WWII veterans, combat veterans, disabled individuals,

citizens affected by radiation from the Chernobyl disaster, honorary citizens of the region, mothers of large families, and others.

Some regions in the Russian Federation provide exemptions from vehicle tax for electric car owners, including Moscow and Moscow region, Saint Petersburg, Kaluga, Lipetsk, Kursk, Tyumen, Amur, Volgograd, Kemerovo, Irkutsk regions, Perm Krai, Kabardino-Balkaria, Dagestan, Transbaikalia, and Bashkortostan.

Next, we examine China's approaches to vehicle tax and tax on expensive cars (summarized in **Table 5**).

Table 5. Vehicle tax: Vehicle purchase tax rates in China.

Vehicle Type	Engine Displacement (Liters)	Tax Rate (%)
Passenger Cars	≤ 1.0	1%
	1.0 < and ≤ 1.5	3%
	1.5 < and ≤ 2.0	5%
	2.0 < and ≤ 2.5	9%
	2.5 < and ≤ 3.0	12%
	3.0 < and ≤ 4.0	25%
	> 4.0	40%
Light and Medium Commercial Passenger Vehicles	-	5%
Super Luxury Cars*	-	10%

Notes: In China, cars priced over RMB 1.3 million are defined as Super luxury Car and are subject to a 10% Excise tax. This policy is outlined in the official regulations found https://www.gov.cn/xinwen/2016-12/01/content_5140801.htm (Fisman and Wei, 2004a; PRC State Administration of Taxation (SAT), 2019; Xinhua News Agency, 2018, 2023a, 2023b).

Comparing the approaches to taxing expensive cars in China and Russia reveals that the tax rate on vehicles with larger engines (3 liters and above) in China significantly exceeds the rates in Russia, often by a factor of 3.5 or more. Conversely, China has developed a specific taxation category for "super luxury cars", proposing a relatively low rate of 10%.

The lower tax rate (10%) for luxury cars, compared to higher rates for cars with larger engine displacements, can be attributed to several economic principles and policy objectives:

1) Market Positioning and Price Elasticity: Luxury cars cater to high-income consumers whose demand exhibits lower price elasticity. Consequently, their purchasing decisions remain relatively unaffected by price changes. A reduced tax rate stimulates demand within this segment without substantially impacting overall tax revenue. Conversely, vehicles with larger engines, typically appealing to a broader consumer base, demonstrate higher sensitivity to price fluctuations. Elevated tax rates on these vehicles curtail demand, aligning consumption with environmental objectives.
2) Stimulating High-End Consumption and Multiplier Effect: Promoting luxury consumption can generate a significant multiplier effect within the economy. Increased expenditures on luxury goods bolster various sectors, including services, retail, and hospitality, fostering overall economic growth. By implementing a lower tax rate on luxury vehicles, the government can enhance

high-end consumption, driving economic activity and increasing the market's allure for luxury brands (Fisman and Wei, 2004b; Xinhua News Agency, 2023a).

3) International Competition and Market Attractiveness: A favorable tax rate on luxury cars heightens China's attractiveness as a market for global luxury brands, bolstering foreign direct investment and fostering competition. This results in greater consumer choice, improved market efficiency, and increased tax revenues from related economic activities. The Chinese government aims to draw international luxury brands and invigorate the domestic market by sustaining competitive tax rates (PRC State Administration of Taxation (SAT), 2019).
4) Environmental Policy and Negative Externalities: Higher taxes on larger engine vehicles serve to internalize the negative externalities associated with pollution and energy consumption, thereby discouraging the use of high-emission vehicles in accordance with environmental protection goals. Luxury cars, despite their high value, represent a smaller market share with a relatively limited impact on overall environmental degradation. Therefore, a lower tax rate aligns economic incentives with environmental objectives (OECD, 2022; Xinhua News Agency, 2023b).

5. Wealth tax concepts in Russia and China

Unlike the wealth tax concept in France, which has gained renewed relevance during election periods, neither Russia nor China imposes additional taxes on expensive real estate. However, Russia is developing such a tax. In 2024, a bill was introduced to the State Duma of Russia to impose a tax on luxury items, including:

1) Residential houses, parts of houses, apartments, and parts of apartments in Russia, valued at 1 billion rubles or more.
2) Dachas and other residential buildings, premises, and structures, as well as land plots on which these properties are located, including dacha and garden plots, and plots for individual housing construction, all valued at 1 billion rubles or more.
3) Unfinished residential construction projects in Russia valued at 1 billion rubles or more, including the land plots, after a three-year construction period.
4) Cars purchased in Russia or first registered in accordance with Russian law for a new owner, valued at 20 million rubles or more.
5) Passenger sea, river, and air vessels purchased in Russia or first registered in accordance with Russian law for a new owner, valued at 50 million rubles or more. This includes airplanes, helicopters, ships, yachts, sailboats, and motorboats.

For real estate, luxury tax rates are proposed to range from 0.3% to 1.2% annually. For vehicles, the rates range from 1% to 4%, applied as a one-time fee upon acquisition.

Notably, the list of luxury real estate includes only residential properties. Non-residential real estate is excluded, despite the inclusion of legal entities and individual entrepreneurs as taxpayers. Typically, legal entities and individual entrepreneurs do not register residential properties in their names, except for hotel complexes, which are not included in the list.

Individuals may avoid the tax by dividing property ownership among several family members. Additionally, they may evade the vehicle acquisition tax by

purchasing and registering vehicles outside of Russia, a practice currently occurring due to the introduction of a disposal fee.

Therefore, beyond the issue of avoiding double taxation (as the listed properties are already taxed at higher rates through property and vehicle taxes), lawmakers need to address the issue of tax collection efficiency.

5.1. Property tax in China

China currently does not have a nationwide real estate tax for residential properties. However, pilot programs are in place in two cities: Shanghai and Chongqing. These programs levy property taxes on high-value properties and second homes to curb speculation and control housing prices (Shanghai Tax Authority, 2024).

In Shanghai, the property tax rate ranges from 0.4% to 0.6% of the property's market transaction price. Property tax is exempt for residential households if the per capita living area is less than 60 square meters or if the total housing area is less than 180 square meters. These taxes are levied at the time of property transactions (Shanghai Tax Authority, 2024).

Chongqing imposes a tax rate of 0.5% on high-end properties. Property tax is exempt for residential households if the total living area of all properties owned by the household is less than 180 square meters. These taxes are levied at the time of property transactions (Chongqing Municipal Finance Bureau, 2024).

5.2. Simulating the distributional effects of property tax reform in Italy

Modeling the distributional effects of property tax reform in Italy shows that such a reform would significantly improve the progressivity of the tax system, correcting the inequity of higher effective tax rates on properties with lower market values (Berry, 2022).

6. Discussion: In search of wealth transfer mechanisms (linking luxury tax with progressive personal income tax)

This study focuses on the luxury tax as an essential condition for implementing a progressive personal income tax system in Russia.

Examining the global landscape of personal income tax rates in 2024 reveals significant differences among major economies. This analysis focuses primarily on the Russian Federation and China, while also comparing other countries to highlight the diversity of national fiscal policies. Currently, the Russian Federation employs a flat tax system with no income threshold for a 0% tax rate; all income is taxed starting from the first ruble. Russia is undergoing tax reform, with the highest tax rate planned at 22%, applied to incomes exceeding 50,000,000 rubles per year. In contrast, China's tax system establishes a 0% tax threshold at 60,000 yuan per year. The highest marginal tax rate of 45% is applied to incomes exceeding 960,000 yuan per year, indicating a progressive system aimed at higher income groups.

In the United States, a tiered tax system is in place, with a 0% threshold set at $13,850 per year and the highest marginal rate of 37% for incomes exceeding $578,126 per year. This contrasts with the United Kingdom, which sets a 0% tax rate for incomes up to £12,570 per year and imposes a 45% rate on incomes above

£125,140 per year. Similarly, Germany and France have high tax rates of 45%, but the income thresholds differ: €277,825 per year for Germany and €177,106 per year for France. These progressive tax systems in Western countries illustrate various approaches to income redistribution and tax burden allocation.

Australia's progressive model starts with a tax-free threshold of AUD 18,200 and reaches 45% for incomes exceeding AUD 180,000. Canada sets a 0% threshold at CAD 15,000 per year, with the highest tax rate of 33% applied to incomes over CAD 246,752. Japan sets a 0% tax threshold at JPY 480,000 per year and imposes a 45% rate on incomes exceeding JPY 40,000,000. India's tax structure offers a 0% threshold at INR 300,000 and a maximum rate of 30% for incomes above INR 1,500,000. Brazil has a relatively low 0% threshold at BRL 22,847.76 per year and applies the highest tax rate of 27.5% to incomes exceeding BRL 55,976.16 per year.

The comparative analysis of progressive personal income tax systems across different countries conducted in this study is summarized in **Table 6**.

Table 6. Comparative analysis of progressive personal income tax systems.

Country	Income Threshold for 0% Tax Rate	Highest Tax Rate	Income Threshold for Highest Tax Rate	Ratio (Income Threshold for Highest Tax Rate/Income Threshold for 0% Tax Rate)	Minimum Wage	Ratio (Income Threshold for 0% Tax Rate/Minimum Wage)
1	**2**	**3**	**4**	**5**	**6**	**7**
Russia	RUB 0/year	22.00%	RUB 50,000,000/year	*Na*	RUB 19,242/Month	Annual Minimum Wage: 19,242 × 12 = 230,904 RUB Ratio: 0/230,904 = 0
China	RMB 60,000/year	45.00%	RMB 960,000/year	16.00	Standards vary across different regions in China, taking Beijing as an example: 1. The minimum wage standard for full-time employees is RMB 2420/month; 2. The minimum wage standard for part-time employees is RMB 26.4/hour.	Annual Minimum Wage (Beijing): 2420 × 12 = 29,040 RMB Ratio: 60,000/29,040 = 2.07
United States	$13,850/year	37.00%	$578,125/year	41.74	$7.25 per hour.	Annual Minimum Wage: 7.25 × 40 × 52=15,080 USD Ratio: 13,850/15,080 ≈ 0.92
United Kingdom	£12,570/year	45.00%	£125,140/year	9.96	£11.44/hour	Annual Minimum Wage:11.44 × 40 × 52 = 23,795.20 GBP Ratio: 12,570/23,795.20 ≈ 0.53
Germany	€11,604/year	45.00%	€277,826/year	23.94	€12.41/hour	Annual Minimum Wage: 12.41 × 40 × 52 = 25,813.60 EUR Ratio: 11,604/25,813.60 ≈ 0.45
France	€11,294/year	45.00%	€177,106/year	15.68	€11.65/hour	Annual Minimum Wage: 11.65 × 40 × 52 = 24,232 EUR Ratio: 11,294/24,232 ≈ 0.47

Table 6. (*Continued*).

Country	Income Threshold for 0% Tax Rate	Highest Tax Rate	Income Threshold for Highest Tax Rate	Ratio (Income Threshold for Highest Tax Rate/Income Threshold for 0% Tax Rate)	Minimum Wage	Ratio (Income Threshold for 0% Tax Rate/Minimum Wage)
Australia	AUD 18,200/year	45.00%	AUD 180,000/year	9.89	AUD 24.10/hour	Annual Minimum Wage: 24.10 × 40 × 52 =50,128 AUD Ratio: 18,200/50,128 ≈ 0.36
Canada	CAD 15,000/year	33.00%	CAD 246,752/year	16.45	CAD 17.30/hour	Annual Minimum Wage: 17.30 × 40 × 52 = 35,984 CAD Ratio: 15,000/35,984 ≈ 0.42
India	INR 300,000/year	42.74%	INR 1,500,000/year	5.00	INR 178/hour	Annual Minimum Wage: 178 × 40 × 52 = 370,240 INR Ratio: 300,000/370,240 ≈ 0.81
Brazil	BRL 27,110.40/year	27.50%	BRL 55,976.16/year	2.45	BRL 1412/month	Annual Minimum Wage: 1412 × 12 = 16,944 BRL Ratio: 22,847.76/16,944 ≈ 1.35

Notes: 1. The minimum wage is calculated based on a standard 40-hour work week and 52 weeks per year for all countries. 2. Income thresholds and minimum wages are presented in local currencies. 3. Ratios are approximated to two decimal places where applicable.
Source: Compiled from various national tax authorities and labor departments (Anderson, 2024; Australian Taxation Office, 2024; Beijing Municipal Bureau of Human Resources and Social Security, 2023; Canada Revenue Agency, 2023; Correio Braziliense, 2024; Directorate of Legal and Administrative Information (Prime Minister), 2024; DITC Trade Newspaper, 2024; India Briefing, 2024; Internal Revenue Code (IRC), 2024; Janet, 2024; PWC, 2022, 2024; Russian Federal Tax Service Official, 2024; Sing Tao, 2024; State Administration of Taxation of China, 2019; Trading Economics, 2024; UK government, 2024).

In conclusion, comparing these tax systems highlights the diversity of approaches to personal income taxation across different countries. The absence of a tax-free threshold (0%) for personal income tax in Russia contrasts sharply with other national practices. The authors welcome the initiation of tax reform and the long-awaited replacement of the flat tax system (13% for all income classes—poor, middle, and rich) with a progressive tax system. Introducing a tax-free threshold (0%) for personal income tax is deemed critically important for ensuring fair tax burden distribution and mitigating economic inequality.

Modeling China's approach to determining the 0% tax rate threshold, we find an annual income of 461,808 rubles based on twice the minimum monthly wage. Comparing this with the high-income threshold of 50 million rubles, the ratio is 108 times. This unprecedented disparity between the highest and lowest incomes in Russia is also seen in the United States, with a 42-fold difference.

In our research, we calculated two types of ratios. Besides the disparity between the highest and lowest incomes (for the 0% personal income tax rate) in column 5, we also calculated the ratio of relatively low incomes (for the 0% personal income tax rate) to the minimum wage. The interpretation of these ratios concerning fair income taxation is opposite. The first ratio follows the principle: "the higher the value, the deeper the inequality", while the second ratio follows: "the higher the value, the lower the inequality". The highest value in the second ratio is demonstrated by China,

confirming its achievements in reducing income inequality.

Our calculations and conclusions based on the comparative analysis of progressive personal income tax systems are corroborated by data from the World Inequality Database (WID). Deep inequality is characteristic of Russia and the United States. However, the WID database allows for differentiation. The lowest income shares for the bottom 50% of the population are seen in the United States (a decline from 14.25% in 2009 to 10.38% in 2022) and Brazil (a decline from 10.33% in 2009 to 8.99% in 2022). Russia, the United States, Brazil, and India share the common feature of deep inequality—the income share of the bottom 50% is lower than that of the top 1%. China's success in reducing inequality is evidenced by the convergence of income shares for the bottom 50% and the top 1%. Current WID database indicators also support the long-established Japanese-Rhineland model. In Japan, Germany, and France, the income share for the bottom 50% (around 20%) is higher than that for the top 1% (around 10-12%).

WID database indicators also demonstrate the high potential of wealth taxes, especially on expensive real estate. While some countries show that the income share of the bottom 50% exceeds that of the top 1%, wealth inequality remains pronounced, with the top 1% holding a disproportionate share of capital. The highest concentration of wealth and consequently inequality is seen in Russia, Brazil, and the United States. China's top 1% also holds more capital than the indicators typical of the Japanese-Rhineland model.

Thus, shifting the tax burden from the bottom 50% to the top 1% is overdue, including in Russia. Currently, official statistics indicate that the share of property tax in Russia's consolidated budget was only 4.4% in 2022, while the share of personal income tax, including taxes on the poor, was 17%.

7. Conclusion

Taxes, as a tool of fiscal policy, play a significant role in regulating inequality within society. As one of the primary factors in redistributing national income, taxes address distributional issues and incentivize certain activities.

Different countries offer varying degrees of progressivity, reflecting diverse fiscal strategies for income redistribution and tax burden allocation. This analysis provides a foundation for understanding how personal income tax policies can influence economic behavior and inequality in different national contexts.

The article describes the introduction of the luxury tax as part of the vehicle tax—a unique Russian experience, as most countries have a wealth tax framework where expensive vehicles: cars, yachts, airplanes, etc., are considered luxury items and are subject to additional special taxes. Notably, the U.S. had a similar vehicle tax until 2005. In 2009, a bill was proposed to introduce a luxury tax on cars worth more than $60,000, as well as planes worth over $500,000 and yachts worth over $200,000. However, the bill was not passed. Currently, the U.S. employs a different approach—replacing the luxury tax with a higher VAT rate on luxury goods, paid by the manufacturers of these items.

The authors support the recent thesis by Berry. that the pursuit of luxury distorts social values, reduces social capital, and undermines solidarity in society. In the

previously cited book on luxury, McNeil and Riello express a different view, suggesting that luxury spending is a symptom rather than a cause of economic inequality or the injustices of capitalism. To explore perspectives on luxury, which have been studied for several centuries (as noted in the Methods and Approaches section), the authors formulated and tested a hypothesis through the collection and analysis of country-specific data on luxury taxes and personal income taxes: Is there a correlation between high demand for luxury items among residents and deep economic inequality within certain countries?

China's experience vividly demonstrates the specificity of its socialist model—despite significant achievements in reducing inequality, as presented in our article, China showcases the best practices in progressive personal income tax systems while simultaneously growing its presence in the global luxury goods market. Conversely, Russia shows an apparent decrease in its representation in the global luxury market, but this does not indicate a reduction in economic inequality among its population. Both findings highlight the high relevance of our research in improving wealth redistribution mechanisms, particularly in Russia and China, as well as in other countries worldwide. Against the backdrop of authoritative assessments of China's achievements in reducing inequality over the past two decades, the key role in achieving similar successes in Russia lies in the synergy of implementing a progressive personal income tax scale (with a 0% rate for the "poor" class) and a luxury tax (on purchases in the luxury market by the "rich" class) and a luxury tax (on purchases in the luxury market by the "rich" class).

Currently, Russia is undergoing tax reform, transitioning from a flat personal income tax scale to a progressive one. During the flat tax period, personal income taxation in Russia did not significantly impact the reduction of monetary inequality; instead, it exacerbated it. Property taxation was also not utilized to mitigate inequality. However, considering the role of property taxes in developed countries, it is evident that they have significant potential to enhance regional and municipal budgetary sufficiency and reduce income inequality.

Nevertheless, in the transition from a flat to a progressive tax scale in Russia, the possible package of tax benefits has not been thoroughly studied. In this context, the experience of Belarus is noteworthy, where a double tax rate is applied to wealthy citizens owning more than one real estate property. The provision of benefits acts as a direct incentive, demonstrating explicit support for a specific taxpayer or their actions, which is a key aspect of optimal taxation—stimulating interest in economic activities. On the one hand, benefits represent intervention in the economy, a subjective correction of economic laws, but on the other hand, it is a desirable intervention for businesses, providing clear advantages for the beneficiary. Given the significant objective and subjective challenges faced in utilizing tax benefits in Russia today, their scope and application should be limited and strictly controlled. Regarding the general economic orientation of tax benefits, it is advisable to limit them to social and economic benefits, where the former provide support, and the latter serve as incentives. The problem with providing social benefits in the Russian Federation is that they are not offered on broad grounds.

From the perspective of mitigating monetary inequality in Russia, the reinstatement of inheritance and gift taxes is advisable, particularly for the most

valuable properties. This tax effectively performed its fiscal function: in 1994, tax revenues from it reached 10.5% of GDP. Unlike a progressive income tax, such a tax does not deter business activities. It was abolished due to the violation of the principle of single taxation, as inheritance is property previously acquired with income that was already taxed. However, many other taxes functioning today in Russia and globally do not withstand this argument. Inherited or gifted property constitutes income for the recipient, received gratuitously rather than as earned income. Taxing such income is economically justified and socially fair, as many researchers note.

In the context of reducing inequality, the reintroduction of the wealth tax has reappeared in France's pre-election agenda. "France's left-wing New Popular Front (NPF)—now the largest group in parliament-has called for a prime minister who will implement its ideas, including a new wealth tax and petrol price controls. Jean-Luc Mélenchon says he would introduce a new 90% tax on any annual income above €400,000 (£337,954)". France already has some of the world's highest rates of income tax.

Author contributions: Conceptualization, YX, AL, NK and TI; methodology, AL, NK and TI; software, YX; validation, YX, AL and NK; formal analysis, YX; investigation, YX, AL and NK; resources, YX; data curation, YX; writing—original draft preparation, YX, AL, NK and TI; writing—review and editing, YX, AL, TI and NK; visualization, YX; supervision, AL, TI and NK; project administration, AL; funding acquisition, AL. All authors have read and agreed to the published version of the manuscript.

Acknowledgments: The study was supported by the Development Program of Tomsk State University (Priority-2030).

Conflict of interest: The authors declare no conflict of interest.

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