



## POTENTIAL TAX REVENUE ON LUXURY PETS (STUDIES IN INDONESIA)

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### Abstract

*The phenomenon of flexing, which is excessive showing off behavior where a person tries to solidify a position in the social environment to meet the need for appreciation and validation from others regarding their social status. In Indonesia, this phenomenon takes many forms, one of which is flexing related to pets. Some people have animals that are classified as luxury pets. Luxury pets, often referred to as exotic pets or luxury pets, refer to animals that are not commonly used as pets and are usually relatively expensive. Given the characteristics of luxury goods mentioned in the VAT and STLG Law applicable in Indonesia, it is stated that luxury goods are not basic needs, consumed by certain people, consumed by high-income people and to show status. Therefore, Pets classified as Luxury Pet should be subject to STLG considering the development of pet lovers increases over time, for example, cats, dogs and fish. This research is expected to provide the imposition of new types of taxes for the DGT so as to increase state revenue, especially in the tax sector.*

**Keywords:** *Luxury Goods Sales Tax, Pets, Tax*

### Abstrak

Fenomena flexing, yaitu perilaku pamer secara berlebihan dimana seseorang mencoba mengukuhkan posisi dalam lingkungan sosial untuk memenuhi kebutuhan akan penghargaan dan validasi dari orang lain mengenai status sosialnya. Di Indonesia fenomena ini banyak bentuknya, salah satunya adalah flexing terkait dengan hewan peliharaan yang dimiliki. Sejumlah kalangan memiliki hewan yang tergolong luxury pet. Hewan peliharaan mewah, atau sering disebut dengan exotic pet atau luxury pet, merujuk pada hewan-hewan yang tidak umum dijadikan sebagai hewan peliharaan dan biasanya memiliki harga yang relatif mahal. Mengingat karakteristik barang mewah yang disebutkan dalam Undang-undang PPN dan PPnBM yang berlaku di Indonesia, disebutkan bahwa barang mewah bukan basic needs, dikonsumsi oleh masyarakat tertentu, dikonsumsi oleh masyarakat berpenghasilan tinggi dan untuk menunjukkan status. Oleh karena itu, Hewan Peliharaan yang tergolong Luxury Pet sudah seharusnya dikenakan PPnBM mengingat perkembangan pecinta hewan peliharaan meningkat seiring waktu contohnya adalah kucing, anjing dan ikan. Penelitian ini diharapkan dapat memberikan pengenalan jenis pajak baru bagi DJP sehingga dapat meningkatkan penerimaan negara khususnya di sektor pajak.

**Kata Kunci:** Hewan Peliharaan, Pajak, Pajak Penjualan Barang Mewah

### INTRODUCTION

In research (Maslow, 1943), Maslow's Basic Needs Theory reveals that after fulfilling basic physiological needs, the need for security and social needs, people's needs will increase to get appreciation from their social environment. According to (Maslow, 1943), this need for appreciation is based on the motivation or desire to fulfill the ego and achieve prestige. In another approach expressed by (Veblen, 1899) that the accumulation of wealth is not a reliable indicator to determine a person's social position, but what gives social status is evidence of that wealth. People often use the purchase of expensive goods and services as a prominent way to demonstrate their wealth.

According to (Sari et al., 2023) The phenomenon of flexing, which is excessive showing off behavior, reflects Maslow's theory, where people try to establish a position in the social environment to meet the need for appreciation and validation from others regarding their social status. Non-price considerations now have a greater effect on consumer behavior (Srigustini & Aisyah, 2021). These elements, which include the desire for exclusivity and demonstrating status, can lead to illogical behavior. The leisure class is often the site of the phenomenon of consumer behavior being more influenced by non-price variables. However, there has been a



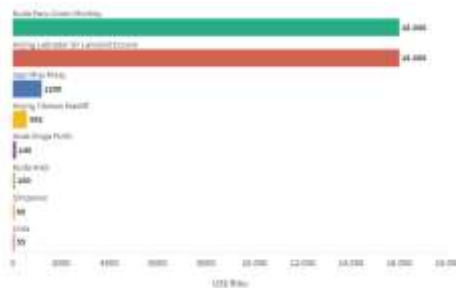
change in this situation, and now all circles of society are affected by the phenomenon, not only those in the upper class (Srigustini & Aisyah, 2021).

Consumer decisions can be influenced by external social factors when a product has an established reputation or is trending (Andriana et al., 2024). According to (Mainolfi, 2020) refers to a phenomenon known as the "bandwagon effect", which occurs when a trend inspires others to try and follow it. According to (Leibenstein, 1950), the bandwagon effect is when a person chooses an item because a group of other people encourage it, regardless of their own preferences. Customers can be persuaded to buy a product by the bandwagon effect if they believe that the product is popular, especially if celebrities and other influential people endorse it. According to (Sabir et al., 2020), buyers may also plan to buy a product as a result of the bandwagon effect of others, who may start the trend, including close friends and family members or even a sizable number of strangers. The effect of following the prevailing trend can be known as the snob effect, where buying something because it can increase social status is one aspect of the prestige impact in this case (Romadhona & Perdhana, 2022).

One of the natural tendencies of a person is social status, the need to be different from others sometimes makes people show off whatever they have or do on social networks (Bakti et al., 2020). The Big Indonesian Dictionary (KBBI) defines flexing as the deliberate act of showing something to others with the aim of boasting and showing off. Flexing has become a trend in society. One form of flexing that has occurred a lot lately is people's ownership of rare, exotic and high-priced pets, hereafter referred to as luxury pets. Flexing over the ownership of animals that are classified as expensive in Indonesia often occurs in various circles of society, especially among celebrities in Indonesia. Reported (economy.okezone.com, 2023) states that Alshad Ahmad owns a wolf animal that was purchased for 70 million. In other news, on the page (kumparan.com, 2020) revealed that an artist has an alpaca turtle with a price per tail of 500 million. This can be considered quite fantastic because it can be said that the price tag exceeds the market price of transportation in Indonesia.

In this regard, it is important to keep in mind that most Indonesians consider animal ownership as a hobby or pleasure and self-indulgence. The majority of pets are considered docile animals. The most popular animals to keep are usually cats, dogs, birds, fish as they are considered to be more docile when kept and can channel their hobbies. Because of their uniqueness and specialty, fans of these animals usually want to keep them. Usually, Indonesia imports these animals to be bred there. Some people are prepared to spend a lot of money on pets. This depends on a number of variables, including the pet's history, physical characteristics, rarity and pedigree. According to the data (dataindonesia.id, 2023) reflected in Figure 1. Informs related to the 8 Most Expensive Pets in the World in 2023. Consistent with the theoretical approach taken by (Veblen, 1899) and (Maslow, 1943), many members of the upper class keep these creatures as pets, which naturally increases the status of the owner.

**Figure 1. 8 Most Expensive Pets in the World**

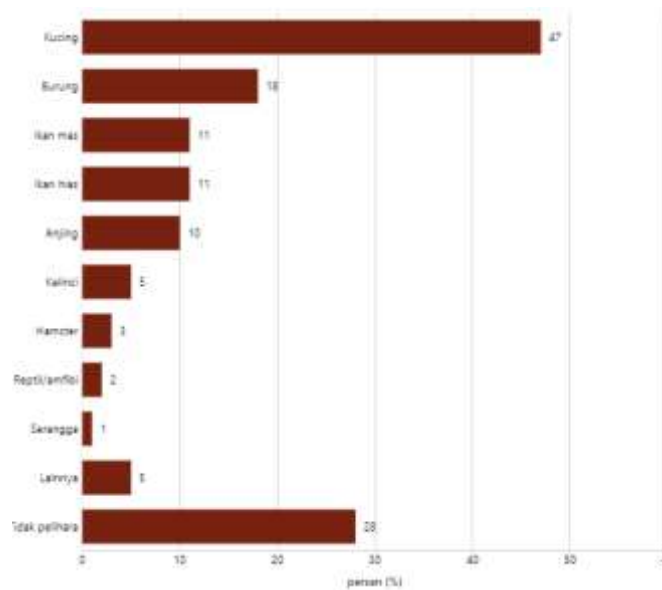


Sourcer: (dataindonesia.id, 2023)



Cats and birds are the most popular pets in Indonesia. Sellers trade these animals directly to buyers through online platforms or by opening pet shops. As buyers can see the animal they want to buy in person and are reassured by the animal's certificate of sale, buying and selling animals through pet shops is often safer. These certificates state that the animal is free from disease and include details of the animal's breed. Foreign breeds of animals with distinctive and interesting shapes often appeal to consumers. According to (databoks.katadata.co.id, 2023) presented in Figure 2 the animals most kept by Indonesian respondents in 2021.

**Figure 2: Pets in Indonesia**



Source: (dataindonesia.id, 2023)

Reporting in (idxchannel, 2022), there are some animal prices that are quite expensive. For example, caracal cats can reach Rp. 700 million, there are savanah jungle cats that are priced at Rp370 million, Bengal cats can be priced at 150 million. For other types such as sanke misa koi fish, it can reach billions of rupiah. Given the high prices, it is reasonable to assume that the individuals buying these animals are wealthy. Buying animals at prices that are out of reach for most people suggests that these animals are unique treasures, or considered luxury commodities.

Of course, great care is required when dealing with objects of great value. An animal's chances of survival are significantly affected by proper and good care. The majority of pet owners are undoubtedly engaged in routine activities related to providing for their pet's needs, including food as well as other specialized care that can maintain the quality of their pet. Quite often, pet owners will take their pets to specialized veterinarians just to get better veterinary care and maintain the quality of the animal. And in the treatment, the owner must spend quite a lot of money. This shows that keeping animals requires a large financial and labor investment. In other words, only a certain group of people with high social status are allowed to own animals with high value.

In Indonesia itself, sometimes some animals can show their social status. For example, a dog is seen as a symbol of social status. In research (Agustini & Marhaeni, 2017), having a pet is an indicator of one's social status. Purebred dogs are usually the animals chosen and kept as pets because they have distinctive features and reflect the social status of their owners. This social class is determined by the type, variety and rarity of the animal owned by the owner. The rarer the animal, the higher the prestige symbol for the owner. One of the motivations for the exotic animal trade, according to (Lo, 2021), is the desire to demonstrate wealth and social



status. People feel more valued and accepted by society when they show off their exotic animal collection on social media or among friends. A measure of social status and a determinant of wealth, according to (Reuter & Schaefer, 2017)), is that owning a special animal makes one feel proud. Proud to be the owner of an animal whose global trade is controlled and whose conservation status is very important, Enjoying the ability to buy expensive pets.

Data published by London-based market research firm Euromonitor 2021 shows that the number of cats and dogs kept as pets in Indonesia increased from 2017 to 2021, demonstrating the growing pet craze in Indonesia. Using statistics from Euromonitor 2021, it states that the number of pet cats in Indonesia grew by 129% between 2017 and 2021, while the number of dogs rose by 117%.

Considering the fact that in Indonesia, the demand for pets continues to increase, the government, in this case the DGT, needs to consider properly the potential tax on the delivery and sale of these animals. Because the tax regulations are basically related to the sale, acquisition, and delivery of products. Animals categorized as other than livestock include animals that are kept for pleasure or can show their social status, provided that they meet the criteria of the Luxury Goods Sales Tax (PPnBM in Indonesia). So far Value Added Tax (VAT) is the only tax levied during the import of these animals. However, these animals can be categorized as luxury products under the criteria of STLG if they are not usually considered as basic products or if they are eaten by certain populations. This can certainly optimize state revenue through taxes with the Luxury Goods Sales Tax. In fact, until now there is no clear definition of luxury products - let alone luxury goods for the animal industry, especially pets. The government, represented by the DGT, can impose Luxury Sales Tax on the transaction if all components of luxury goods characteristics have been met. This can also be an example of the government using tax extensification initiatives to expand the tax object.

## **LITERATURE REVIEW**

### **Tax in Indonesia and Philosophy of Sales Tax**

One source of state revenue is taxes, which aim to finance state needs and to increase national development. Taxes according to Article 23A of the 1945 Constitution are compulsory levies for state purposes regulated by law. Furthermore, in the Law on General Provisions of Taxation, taxes are mandatory contributions owed by individuals or entities, are coercive, and do not provide direct rewards. The rewards obtained by the community as a form of contribution to tax payments are channeled in the form of providing more adequate public facilities in order to support the interests of the community itself. Tax itself is still a supporter of state revenue in the State Budget (APBN). (Puspitasari & Febrianti, 2017) stated that more than 75% of Indonesia's revenue comes from taxes, which shows that taxes are very important to improve people's welfare.

Sales tax, also known as consumption tax, is a levy imposed by the government on the sale of goods and delivery of services. According to (Mulyani, 2022), tax on the consumption of a good or service is a burden for the final consumer. Sales tax itself is also included in the indirect tax category, where the tax burden is borne by the final consumer while the party that deposits the tax is the taxable entrepreneur who sells the goods or services. Sales tax is a determining factor in the selling price of an item due to its mechanism that is imposed on every transaction, causing a cascading effect where the tax value will continue to increase in each supply chain and will eventually be charged to the selling price. Sales tax is objective in that its imposition does not consider the ability and condition of the tax subject to make tax payments.

The function of this sales tax is to create a balance of tax burdens between taxpayers who are high-income consumers and low-income consumers (Naila et al., 2023). Sales tax can also be a control tool for the government to control people's consumption patterns, especially



consumption of taxable goods classified as luxury. In addition, the existence of this sales tax is included in the framework of protecting traditional producers and domestic small-scale producers.

One form of sales tax in Indonesia is the tax on the sale of luxury goods imposed on the consumption of goods which according to the provisions are included in the luxury goods group. In Research (Ardiansyah, 2022) quoting Lennard (1918) states that there are two backgrounds for the imposition of taxes on luxury goods. First, to reduce social inequality through limiting the consumption of luxury goods so that they are diverted to consumption related to more urgent needs or goods. Second, STLG functions as a complement to other taxes in order to increase state revenue. The STLG has a regressive impact because taxpayers with high income will be subject to the same tax as taxpayers with low income. Therefore, to overcome the regressive impact, luxury goods are taxed at a high rate. Therefore, it can be said that the main purpose of the imposition of STLG is to provide more justice in taxation and to reduce unproductive consumption patterns in the community economy.

The imposition of STLG is different from VAT, STLG is only imposed once at the production stage or import stage (single stage levies) in contrast to VAT which is imposed on each consumption chain (multi-stage levies). As stipulated in Article 5 of the Value Added Tax Law which states that the imposition of STLG is based on two things. The first is on the delivery of taxable goods classified as luxury carried out in the customs area in the course of business or employment. Second, namely on the import of taxable goods classified as luxury.

### **Definition of Luxury Goods**

In Research (Wang, 2022), Adam Smith (1776/1976) categorized products into necessities, basic goods, prosperity goods, and luxuries. Since then, scholars have viewed luxury goods as rare, exclusive, and expensive products that can only be purchased by consumers with sufficient resources (Fuchs et al., 2013) Due to their price and exclusivity, luxury products have become a signal of wealth (Dubois, 2020; Wang, 2022). Most importantly, experts have also analyzed the characteristics that allow marketers to attach a high price tag to a product or brand, thus making it exclusive. These characteristics include exquisite design and craftsmanship, sensory appeal, and a distinct socio-cultural narrative. Hence, we define luxury as expensive and exclusive products and brands that are differentiated from other offerings.

Of course, more than just price is the defining element when it comes to luxury goods. Goods must provide a certain level of pleasure in order to be categorized as luxury goods (Gustiawan, 2015). In addition, products that are special, not mass-produced, and emphasize scarcity are considered luxury goods. Two categories of needs were defined by Christopher Berry in his book *The Idea of Luxury* in 1994:

**Basic Needs** - Basic needs include clothing, entertainment, and shelter. Each is seen as an essential aspect of human life and refers to universal desires rather than the specific demands of one person (Berry, 1994). Instrumental or voluntary needs are commonly known as utilitarian goods, in contrast to basic needs, these needs are secondary to primary needs (Berry, 1994). So in this case, luxury, in contrast to needs, is considered an "object of desire" that is self-fulfilling and associated with pleasure. Luxury is defined as something that provides happiness and pleasure and is defined by an increase in the quality of needs. Thus, luxury is seen as a pleasurable object in its own right, and the general desires described by it are considered to represent certain refinements or qualitative features of universal needs (van der Veen, 2003). In the KBBI, luxury goods are defined as goods that are expensive, not a basic need, but for splendor, pride, beauty, pleasure. The definition of "luxury" according to the Kamus Besar Bahasa Indonesia is abundant; beautiful; excessive (usually about goods and a pleasant way of life).



According to Law No. 41/2014 on the Amendment to Law No. 18/2009 on Animal Husbandry and Animal Health, a pet is an animal whose life is partly or wholly dependent on humans for a specific purpose. According to other findings, Pets are Animals that have been domesticated so that people can keep and care for them for their own pleasure are called pets. Animals kept as pets are often wild animals that have been tamed or domesticated. Law 41/2014 also explains that livestock are domesticated animals whose products are utilized as food, industrial raw materials, services, and/or by-products related to agriculture. For this reason, it is necessary to distinguish between pets and livestock. Although both are pets, the purpose of keeping them is different, so there are differences in the aspects of their maintenance (Rahmiati & Pribadi, 2014).

Given that pets are animals whose lives are partly or entirely dependent on humans, this makes pets also a human hobby. However, in Indonesia itself, many people keep animals at quite fantastic prices and even import them from abroad. If it is associated with the concept of human needs which is said by (Berry, 1994) there are basic needs and instrumental needs, then pets are not human basic needs but instrumental needs or secondary needs because they are based on human hobbies. So that in the case of luxury secondary goods for pets, it is considered to be considered an "object of desire" that is self-satisfying and related to pleasure, moreover it can increase the stigma of social status in society. Thus, a luxury pet can be defined as an animal that is kept by the owner of a residence intentionally for certain satisfactions such as pleasure.

Luxury pets, often referred to as exotic pets or luxury pets, refer to animals that are not commonly kept as pets and are usually relatively expensive. According to (Reuter & Schaefer, 2017), people feel more valued and accepted by society when they show off their exotic animal collection on social media or among friends, resulting in a sense of pride. With Veblen's approach (Veblen, 1899), In the context of luxury pets, ownership of exotic or rare animals can be perceived as a way to assert dominance and a certain social status among peers. In Indonesia, a popular pet is the cat. Many breeds of cats can be said to be expensive items, such as the savanah breed that can reach 350 million rupiah. Such ownership triggers the stigma of how society views luxury pets as a symbol of materialism and excess that is not balanced with the welfare of other animals

### **Justification of Luxury Pets as Tax Objects**

In the Arrangement in One Manuscript of Law of the Republic of Indonesia Number 8 of 1983 Concerning Value Added Tax on Goods and Services and Sales Tax on Luxury Goods as Amended Several Times by Law of the Republic of Indonesia Number 7 of 2021 Article 5 paragraph 1 what is meant by "Taxable goods classified as luxury" are:

1. Goods that are not basic necessities;
2. Goods that are consumed by certain people;
3. Goods that are generally consumed by high-income earners; and/or
4. Goods consumed to show status.

By looking at the definition of luxury goods as mentioned in the Law, pets that have characteristics such as having a much higher price compared to ordinary pets, come from rare breeds or species, require special care, including accommodation, expensive health services, and are purchased as a sign of luxury or a symbol of social status, are eligible to be subject to STLG. In addition, pets are not included in the negative list category of goods that get Value Added Tax exemption facilities stipulated in Government Regulation Number 49 Year 2022 concerning the scope of regulation of objects exempted from VAT. On the import and/or delivery of certain strategic taxable goods, one of which is livestock. The regulation does not mention any clause regarding the exemption of VAT on pet animals, in this case, including pets. Therefore, pets can be considered as a positive list of goods that can be taxed.



The use of VAT on luxury pets can reflect the principle of fairness in taxation. Those who can afford luxury goods are expected to contribute more to state revenue. Taxing luxury pets can also help regulate the market and prevent over-exploitation of endangered/exotic species. The imposition of STLG on luxury pets can provide significant benefits to state revenue. It can be an effective tool to manage resources and promote more responsible consumer behavior, as well as contribute to animal and environmental protection.

### **Comparison with Other Countries**

As reported in ([www.welcome-center-germany.com](http://www.welcome-center-germany.com), 2023), one of the many joys and obligations that come with owning a pet in Germany is paying the Hundesteuer, or pet tax. Every pet owner should be aware of the uniqueness of this tax as it relates to German municipal finances. One of the taxes that pet owners must pay to the government is known as the "Pet Tax", or Hundesteuer. Pet owners are both the ones who bear the tax and the taxpayers as it is an annual fee that they pay directly. Achieving regulatory goals, such as reducing the number of dogs in German cities and municipalities.

In ([globalpetindustry.com](http://globalpetindustry.com), 2023) it is mentioned that in all German municipalities, the so-called Hundesteuer, or dog tax, generates 3.3% more than in 2022. The Federal Statistical Office provided statistics to GlobalPETS, which showed that the tax accounted for €413.8 million (\$436.9 million). German cities received €400 million (\$422.3 million) from the tax in 2021, and in 2020 it was €380.1 million (\$401 million). The tax is intended for the maintenance of green areas, garbage collection, and the provision of poop bags, among other functions that help cover the costs of cleaning up dog waste and maintaining public spaces where dogs are allowed ([globalpetindustry.com](http://globalpetindustry.com), 2023).

According to (Gultom, 2023), Fairness is when the tax subject is taxed proportionally to the tax subject's ability. Roger D. Congleton in *The Burden of Taxation*, proportional tax is defined as a tax with a rate that has an average tax burden that does not change with an increase in income. This tax has a fixed marginal tax rate, regardless of the increase in income. A proportional tax system is considered fairer because everyone is subject to the same tax rate on a particular object. According to the opinion on fairness, tax using proportional rate is considered as the most suitable system.

Tax imposition using proportional rates can be found in sales tax and certain income taxes. In research (Riantika et al., 2016) proportional tax is determined based on a certain percentage of the selling price, not specifically per unit of goods. For example, the amount of tax imposed on a good is  $t$  (in %) of the goods sold, then the price of goods sold will increase by  $tp$  for each unit of goods offered.

In (Nugraheni & Cahyonowati, 2023), the high or low relative price of the goods concerned determines the value of luxury. According to Ng (1987) in (Kim, 2023), collecting tax on luxury goods can increase state revenue without providing additional burden to taxpayers. This is because the taxpayers who are burdened with tax obligations on luxury goods are upper-class people. For this group, luxury goods are considered as "diamond goods", the ownership of goods is no longer based on the use value of the goods, but solely on the price. The imposition of tax on such goods is not considered as a burden, but on the contrary, it is considered to add appreciation value and further validate the luxury of the goods.

### **METHODS**

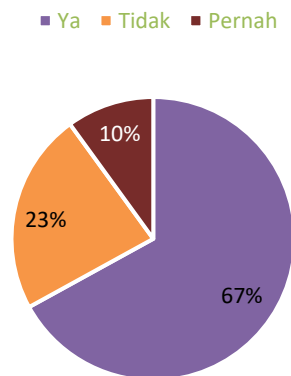
The methodology used in this research is a qualitative method with a literature study approach. The literature can be obtained and understood through various ways, including reading, analyzing, criticizing, and summarizing from certain sources. Researchers need to synthesize, compare research results, and create literature reviews to determine objectives and explain the research process (Ridwan et al., 2021). Researchers collect as much data as possible



related to the topic of the problem, then look for patterns, laws, and principles from the data. Furthermore, researchers draw conclusions based on in-depth analysis of the collected data. In this study, a qualitative approach is used to measure the feasibility of pets classified as luxury pets to be subject to STLG.

Pet ownership in Indonesia is considered important by most people. An American survey company, Rakuten Insight Center, conducted a poll on pet ownership in Indonesia. There were 10,442 respondents to this poll, of which 67% said they had a pet, 23% did not have a pet, while the rest said they had a pet and no longer have one at the moment.

**Graph 1 Percentage of Pet Ownership in Indonesia**



Source: (goodstats, 2023), Data processed

The development of social media has contributed to the rise of pet ownership in Indonesia. The term pet influencer, a pet who becomes a celebrity on social media, has become common. On the Instagram platform, for example, pororo cats have hundreds of thousands of Instagram followers managed by their owners. In the news page (kai.or.id, 2023), it is mentioned that a dog who becomes an influencer has a yearly income of IDR 14.8 billion. The potential profit generated from pet influencers is suspected to be one of the factors that increase pet ownership in Indonesia.

The trend of pet ownership does not only occur in ordinary people. Many celebrities have unusual pets, classified as luxurious, costing tens of millions to the price of luxury cars. Rachel Venya owns a Serval cat, an exotic African cat with a price range of Rp200,000,000 to Rp1 billion. In addition, actor Muhammad Fardhan Khan, has a Savannah breed cat that is priced at IDR 100-500 million.

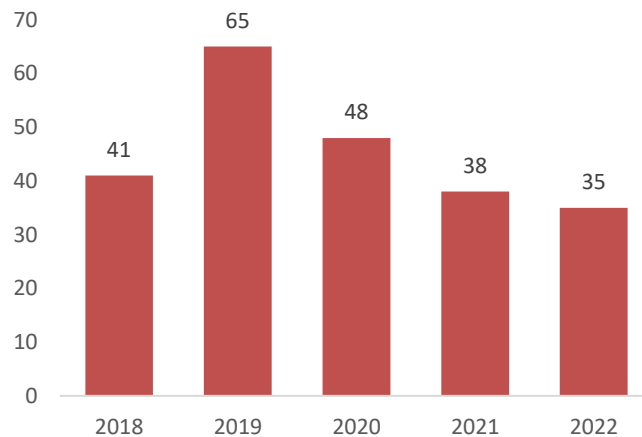
Meanwhile, the trend of pet ownership is growing. Not only do they have very expensive prices, some people choose to have exotic pets. Alshad Ahmad, Irfan Hakim and Lucky Hakim are some of the names that own exotic pets and are often shown through YouTube platforms. These include tigers, reptiles, fish and birds. However, wildlife is not recommended to be kept as pets at home according to Indonesian Law No. 5 of 1990 on the Conservation of Natural Resources and Ecosystems.

The development of luxury pet ownership, including exotic animals, has triggered the rise of illegal wildlife trade in Indonesia. Based on the book Portrait of Wildlife Trade in Indonesia published by the SKALA Association, the calculation of the Directorate General of Forest Protection and Nature Conservation of the Ministry of Forestry (KLHK), the rampant illegal wildlife trade in Indonesia causes Indonesia to lose more than Rp9 trillion per year. This amount does not include ecological damage, ecosystem damage, loss of biodiversity and certain species.



In many news reports in the mass media, the Government, in this case Customs, has succeeded in thwarting a small portion of animal smuggling that occurs in Indonesia. Moreover, it is increasingly heard in the mass media related to dog smuggling that occurs in Indonesia. This is a challenge for Indonesia to maintain the safety and sustainability of animals that will be used as pets. With this smuggling, it could be detrimental to the country.

**Graph 2 Number of Poaching/ Illegal Trade of Wild Plants and Animals Cases (2018-2022)**



Source: (databoks, 2024), Data Processed

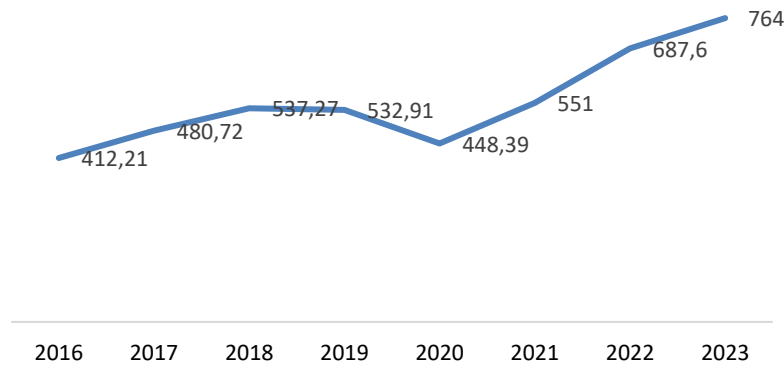
TSL illegal trade cases experienced a significant spike from 41 cases in 2018 to 65 cases in 2019. This is the highest number in the 2018-2022 period. The number of cases then decreased in 2020 (48 cases), 2021 (38 cases), and 2022 (35 cases). Wildlife trafficking is a major threat to wildlife conservation in Indonesia. More than 95% of the animals sold in the market are wild-caught, not captive-bred. Due to poor transportation conditions, more than 20% of animals traded in the market die. Although many animals are protected and endangered, they are still openly traded in Indonesia. The rarer the animal, the more expensive the price. As many as 40% of traded wildlife die due to cruel capture, improper transportation, cramped conditions and lack of food. The wildlife trade ignores the basic needs of animals. Around 60% of mammals sold in bird markets are rare and protected by law.

Indonesian wildlife is legally divided into two groups: protected species and unprotected species. According to Law No. 5 of 1990 on the Conservation of Living Natural Resources and Ecosystems, trading protected wildlife is a criminal offense punishable by up to 5 years in prison and a fine of IDR 100 million. However, the existing legal framework at the national level still has weaknesses that allow illegal wildlife trade to occur. Therefore, other provisions are needed that can narrow this occurrence, one of which is the issuance of provisions on the imposition of STLG on luxury wildlife so that illegal wildlife trade can be minimized.

The Ministry of Finance noted that the realization of VAT / sales tax on luxury goods (STLG) revenue reached IDR 764.53 trillion or equivalent to 104.6% of the target in 2023. Table 1 shows a positive trend in the growth of VAT and STLG This figure shows a growth of 11.2% from the previous year, this is due to the strengthening of public consumption.



Table 1. VAT and STLG Revenue in 2016-2023



Source: (Ministry of Finance, 2023)

The imposition of STLG is closely related to the imposition of VAT. From 2022 to 2024, there is always an increase in VAT and STLG revenues of around 9% each year in line with the increasing consumption of ordinary and luxury goods by the public. STLG is imposed at varying percentages, set as low as 10% and as high as 200% depending on the type of goods and the level of luxury. Goods that are generally subject to STLG include luxury vehicles, luxury properties, jewelry, luxury electronic goods, and other consumer goods that are considered exclusive.

The condition of STLG revenue in Indonesia reflects stability and consistent growth, but there are challenges that need to be addressed to ensure optimal revenue. Tax base broadening through the imposition of STLG on luxury pets is one opportunity that can contribute to increased tax revenue.

## RESULTS AND DISCUSSION

### The Concept of Pet Buying and Selling in Indonesia

There is a growing trend of pet ownership in Indonesia, with most people wanting to have animals as companions for their hobbies. However, it is not uncommon for people to keep pets just to increase their status in the eyes of others. Pet acquisition can be done through imports or domestic sales. Buying an animal, whether imported or not, basically follows the same steps. The import process is different for pets, as there are other requirements that must be met before the owner can enjoy their pet. Reported in [sippn.menpan.go.id](http://sippn.menpan.go.id), the following are the requirements and guidelines for bringing pets into Indonesia:

- A) Health Certificate issued by the authorized official in the country of origin and transit country for animals, animal origin ingredients, animal origin ingredients;
- B) accompanied by a Certificate of Origin from the place of origin for media classified as other objects;
- C) Through designated entry points;
- D) Reported and submitted to quarantine officers at the points of entry for the purposes of quarantine measures.

In Law Regulation Number 21 of 2019 concerning Quarantine of Animals, Fish and Plants, it is stated that when entering carrier media into the Unitary State of the Republic of Indonesia, individuals are required to do the following:

- A) fill out a health certificate from the country of origin for each animal product;
- B) enter the carrier media through the place of entry that has been determined by the central government; and



C) report and submit the carrier media to the quarantine officer at the port of entry designated by the central government in the context of supervision and/or control.

In Indonesia, almost all exotic and rare pets are sold. This is because their rare and distinctive forms attract many animal enthusiasts. The sale of rare animals is prohibited under Law No. 5/1990 on the Conservation of Living Natural Resources and Their Ecosystems. Article 40 paragraph (2) states that violation of any of the three paragraphs in Article 21 paragraph (1) and paragraph (2) and Article 33 paragraph (3) is punishable by imprisonment of up to five years and a maximum fine of Rp 100,000,000.00 (one hundred million rupiah). Government Regulation No. 7/1999 then clarified the regulation. The names of the animals and their Latin names that cannot be traded are listed in the appendix of the regulation. The trade of 236 endangered species is a violation of government policy.

However, according to data reported in (tribunnews.com, 2023), by 2022, there will be more than 4.80 million cats and 737,400 thousand dogs as pets in Indonesia. This can also be proven by other data that cats, birds and dogs are the dominant pets in Indonesia. As they are considered friendlier than other animals, they are more sought after and cherished. The fact that they require less care and food than other animals also contributes to their appeal. According to research (Noviana, 2018), for some Japanese people, having a pet as a substitute for a friend, family member, or even a biological child (human substitute) is very important, even when they live abroad. This can be through petshops or by direct transactions with the person who owns the animal.

Given the prevalence of pets in Indonesia and in relation to taxation, the researcher found that so far the tax treatment for pets does not exist. All tax provisions so far only regulate the transaction of superior commodity animals such as cows, goats and other superior commodity animals. These superior commodity animals mean animals whose meat, milk or other body parts will be utilized for public consumption. In addition, pets are not included in the negative list category of goods that get Value Added Tax exemption facilities stipulated in Government Regulation Number 49 Year 2022 concerning the scope of regulation of objects exempted from VAT. The import and/or delivery of certain strategic taxable goods, one of which is livestock, receives a VAT exemption facility. The regulation does not mention the existence of a clause regarding VAT exemption on pet animals, and the explanation of pet feed is included in the exclusion of the provision of these facilities. In this study, the pet is considered the same as the definition of a pet. Therefore, it can be concluded that pets can be considered as a positive list of goods that can be taxed.

The government in this case issued a regulation that for livestock products, such as cattle, are exempt from taxation, as explained in the explanation of the Minister of Finance Regulation (PMK) Number 115 / PMK.03 / 2021 concerning Procedures for Granting Facilities Exempted from the Imposition of Value Added Tax on Import and / or Delivery of Certain Taxable Goods of a Strategic Nature, in article Article 3 which explains that livestock whose criteria and / or details are regulated by Ministerial Regulation after obtaining consideration from the minister who organizes government affairs in the field of agriculture. The criteria for livestock exempted from the imposition of Value Added Tax are set out in PMK Number 5/PMK.010/2016, for example, cattle, buffaloes, goats/sheep, pigs and other livestock.

Meanwhile, there are still unclear regulations governing the tax treatment of the sale and purchase of pets or animals that are not included in the main commodities in Indonesia, such as dogs and cats. In essence, every tax object transaction that is not exempted will be taxed. Therefore, STLG is levied on the sales value at any transfer or exchange of goods along the transaction path of buying and selling pets, and is levied once at the time of delivery. It is difficult to collect tax on pet transactions in Indonesia due to the vagueness of the law regarding the purchase and sale of animals other than livestock.



### **Extensification and Proposed policy on the Imposition of Luxury Pet STLG**

Along with the growing interest in keeping pets, Indonesia has witnessed a significant surge in the number of pets on the market. People now have greater access to a wide variety of pets, from cats and dogs to exotic reptiles and colorful birds. This phenomenon reflects not only the growing interest in pets as companions and family members, but also as a lifestyle that is gaining popularity among different walks of life.

However, this growth is not always purely driven by affection for animals. Most pet purchases are also influenced by social and psychological factors, such as trends and prestige. Especially among urban communities, owning a pet is often considered a status symbol or a desirable lifestyle. Along with the increased use of social media, this phenomenon is further reinforced by the tendency to show off lifestyle through photos with pets.

The business of buying and selling animals is undoubtedly positively impacted by people's growing interest in animals. Naturally, businesses such as pet shops are capitalizing on this to increase their revenue from buying and selling animals. Pet shops are becoming increasingly common in Indonesia, which shows that there is plenty of room for growth in the animal trade. There is currently no standardized pet price guide; instead, prices are determined by the characteristics of each animal. Pet businesses sell animals for an average price of more than one million rupiah. The price increases proportionally with the condition of the animal. This illustrates how expensive it is to buy a pet. As a result, those with higher incomes tend to own these pets.

If there is indeed a connection with the objects that must be expanded, then the option of imposing STLG is the most appropriate answer. The characteristics of goods referred to as "Taxable Goods classified as luxury" are listed in the explanation of Article 5 paragraph 1 of the VAT Law. These characteristics include goods that are not basic needs, goods that are consumed by certain people, goods that are generally consumed by people with high income, and/or goods that are consumed to show status. Thus, based on the existing conditions in Indonesia, pets meet all the qualifications outlined in paragraph 1 of article 5 of the VAT Law to be classified as tax objects subject to STLG.

The extension of goods subject to STLG on pets considers that the goods that will be subject to STLG are goods that are not basic needs. This is the background that for certain goods and not basic needs can be subject to STLG. The purpose of the imposition of STLG is to increase state revenue from the tax sector. Pets are actually not a basic need. In general, only people who have a hobby and like to keep pets buy these pets. Keeping animals is a life-supporting factor, which if not consumed does not cause any impact. This consideration can be used by the government as one of the benchmarks for the imposition of STLG on pets.

Farm animals are included in the category of basic needs because people will use their meat, milk, and skin. These animals are one of the main commodity animals. According to tax regulations, these livestock are categorized as strategic products that are legally exempted from value-added tax on sales and purchases. Domesticated animals are not considered consumption as a priority item for humans, unlike cattle. In addition, consumers tend to reconsider buying animals after seeing the price offered. In other words, if people's basic needs are met, then pets will be owned.

According to (goodstats, 2023) owning an animal requires financial expenditure for its maintenance and care. According to a Rakuten opinion survey conducted with 7,015 participants, there are several levels of maintenance costs, with a range from 100,000 to over 700,000. The correlation with basic needs in Berry's theory is that humans will first fulfill their basic needs and then fulfill their satisfaction needs. So if someone spends money to keep an animal then their basic needs have been met. Pets are not commodities that are necessary for



the welfare of the general public. Pets are goods that can be used by the government as an object of STLG extensification with the aim of increasing national wealth.

The government will further consider the income of certain income groups of people who own these animals when deciding whether to impose the STLG tax on pets. It is clear that those with higher incomes are the ones who are forced to be subject to STLG. Given the very expensive prices of certain animals, it is clear that only those with large incomes can afford to keep these pets. These creatures will be out of reach for most people. Not only is the cost of owning these animals high, but the cost of providing care and food for them is also considered excessive. Like the phenomenon in the previous chapter that occurred in Indonesia, that many artists own animals with prices exceeding 100 million rupiah. Thus, given the high cost of animals, individuals with higher incomes are usually the ones who can afford these animals.

The government's rationale for the imposition of pets as STLG objects is that these animals are consumed in the sense that they are kept by certain people. In fact, pets such as dogs and cats that are legally sold in the market are generally consumed by certain groups. Not everyone can consume these pets. With a high price for an animal, it is certain that only certain people can enjoy these pets. For certain people, animals are a means to relieve stress and fatigue from work. In this case, it is usually people who love animals. People who are too "maniacal" towards animals will do anything to get the animals they want. They will even prioritize their pet's interests over their own.

Goods consumed to show status is the last justification offered to the government to add to the list of goods covered by STLG. A person will rise in prestige in proportion to the price of the animal he or she owns. The government may consider this before imposing STLG on these animals. People tend to believe that a person's reputation or prestige will increase along with the price of their pet. The shape, nature, and rarity of the animal dictate a higher price.

Any item can be made subject to STLG tax as long as it meets the requirements outlined in Article 5 of the VAT Law, by conducting studies before determining whether or not the product qualifies as a tax object. Data collected from direct field surveys will be used to make a judgment about the taxability of an item. A number of research factors, including economic factors, must be considered when deciding whether or not an item is taxable.

### **Imposition of luxury pet STLG, Level of classification of luxury pets**

There is currently no pet sale value limit in Indonesia, which acts as a maximum price guideline for each type of animal. The selling price of a pet has historically been determined by the seller's desire to sell the animal. The inherent quality of the animal is the main determinant of the pet's selling price. The sale value of the animal increases with its quality. The completeness of the animal's documentation is another determining element; animals with clear certificates or birth certificates will be valued highly. It is this limitation on the price of the animal that is an obstacle for the government to set the STLG rate for pets.

Determining the limit of the application of STLG for animals is challenging due to the diverse types of pets in Indonesia. Not all pets meet the requirements for luxury products. It is hoped that this restriction can be removed with a threshold from the government. The existence of a threshold can avoid the determination of animal tariffs. The purpose of this threshold is to set a limit on the price of animals, whether they are considered luxury goods or not. The government will be greatly assisted by the implementation of the threshold in determining the appropriate tariff to be imposed on pets, given the wide variety of pet species. When goods are shipped from producers to consumers, Sales Tax Luxury Goods is only levied once along the chain of distribution channels. The first party to be affected by STLG in an animal sale and purchase transaction is the business owner who raises the breeder. Because the first reproductive cycle of the animal starts at birth.



The following are some proposals related to the classification of pets that can be subject to Sales Tax on Luxury Goods. First, STLG is a type of tax imposed on goods that are considered luxurious. Pets with a selling price of IDR100 million or more are categorized as luxury goods because the price reflects a very high value and is not common for most pets. The price indicates that the animal may have special or rare characteristics that increase its value. For example, the animal may be a very rare breed, have genetic uniqueness, or even have received special training that increases its economic value.

The taxation of luxury pets aims to generate tax revenue from luxury goods transactions and could also be considered an attempt to regulate the trade in expensive pets. In addition, by taxing expensive pets, the government may also intend to control the demand for animals with high market prices, which may involve certain ethical or conservation issues. Thus, this criterion aims to impact both the fiscal aspect of government and the management and protection of pets.

Secondly, STLG can be imposed on animals listed in (CITES) Appendix II of CITES (Convention on International Trade in Endangered Species of Wild Fauna and Flora) and including protected species of captive origin, not natural origin, and in the F2 category. In this context, "Appendix II" refers to the list of species listed under CITES (Convention on International Trade in Endangered Species of Wild Fauna and Flora), an international treaty that aims to protect animal and plant species that are threatened with extinction due to international trade. Species listed in Appendix 2 are internationally traded and require strict regulations to protect their populations. (CITES) also explains that Appendix II lists "all species which, although not necessarily currently threatened with extinction, may become so unless trade in specimens of such species is subject to strict regulations", and furthermore, other species that must be subject to regulations in order for trade in specimens of certain species to be effectively controlled. Furthermore, the F2 category here refers to animals of captive origin rather than natural origin. "F2 category" refers to the category of animal offspring produced through captive breeding. In another case (CITES) says To be able to import specimens of species listed in Appendix II, prior export permit requirements are required. Under Appendix II, for example, bison, hippos, most vicunas, musk deer, wolves, or otters (some species are listed in Appendix I) are protected. The government imposes taxes on these protected animals to control the trade and ownership of these highly valuable and rare animals. Such taxation can also be an instrument to promote responsible breeding practices and conservation of endangered species. By including these endangered animals in the STLG criteria, the government hopes to limit the demand for endangered species and support global conservation efforts.

Third, STLG can be imposed on pets that are 50 years old or older, reflecting the recognition of the value and special characteristics of animals that have reached this age. Animals that reach the age of 50 years or more are often animals that have a long life history, and may have high historical or symbolic value. They may be part of a cultural heritage or biological wealth that needs to be preserved and valued. Taxing these high-age animals can be seen as an attempt to take into account the extra value that these animals have, aside from their commercial value. An example of an animal with this characteristic is the sulcata tortoise, which can survive for 70 years or more as a pet.

Fourth, the next criterion, exotic animals, refers to animals that are unusual or not commonly found as pets. Examples include mixed cats, reptiles, and other species that are unusual in a domestic environment. This criterion may apply as exotic animals often require specialized care and have higher health risks than conventional pets. In addition, the trade and ownership of exotic animals is often linked to conservation and animal welfare issues.

By imposing taxes on high-age and exotic animals, governments can regulate and control the trade and ownership of these animals of special value. Such taxes can also help to



ensure that people who choose to own animals with these specific characteristics are aware of the responsibilities and obligations associated with them, and to reduce potential negative impacts on animal welfare and the environment.

Fifth, it refers to the criteria for animals obtained through imports. Animals obtained through imports often fall under the category of luxury goods as the import process can add value to the animal through transportation costs, customs fees and other costs associated with the import process. In addition, imported animals often have a high exclusivity value, as they may come from exotic origins or have special characteristics that are not common in the domestic market.

A sales tax on these imported animals could be implemented to control and regulate the international trade of exotic or high-value animals. In addition, such a tax can also be an instrument to protect the local breeding industry by suppressing the demand for imported animals that can compete with local products. By imposing a tax on imported animals, the government can also generate additional fiscal revenue from the animal import sector. The revenue generated from the tax can then be used for various purposes, including to support animal conservation programs, strengthen oversight of the trade in endangered animals, and finance other activities related to natural resource and environmental management.

### **Urgency and arguments for the Imposition of Luxury Pet Sales Tax**

Based on the background, literature review, along with the data and facts that have been collected, the author states that the imposition of STLG on pets classified as luxury can be used as one of the policies that can be considered to expand the tax base in order to encourage increased state revenue.

The urgency of imposing STLG on pets classified as luxury can be seen from several aspects. First, the purpose of formulating taxation policy refers to the function of taxation, namely the budgetair and regulerend functions. The budgetair function means that taxes function as an instrument for the government to collect revenue from the community to finance government and national development. Meanwhile, the regulerend function means that taxes function as a policy tool used by the government to achieve certain goals. The tax extensification policy on pets classified as luxury as an object of STLG fulfills both tax functions as a goal that the government wants to achieve. The purpose of imposing STLG on this object is to tax the adoption of pets in order to increase state revenue.

The rampant illegal trade of wildlife in Indonesia has the potential to cost the state 9 trillion. The implementation of the STLG policy in Indonesia can be one way to reduce the illegal wildlife trade in Indonesia. For example, a legal distributor imposes STLG on an animal purchased by an animal collector. This buyer is unlikely to sell the animal illegally, as they have already paid the STLG and selling illegally is not profitable, given the lower selling price. In addition, the imposition of STLG on animals that have been registered in the law enforcement system will facilitate tracking, thus reducing the possibility of illegal animal sales.

Second, the consumer behavior of luxury goods. The imposition of STLG on pets classified as luxury is by looking at the characteristics of the people who do it. Purchasing a pet classified as a luxury is a high-income community when viewed from the expensive price of the animal. People with ordinary income are considered not to be able to afford these luxury animals. Because, not only is the price of animal acquisition high, but the price of maintaining including the care and food of these animals is also considered expensive. In addition, the animal is not a priority need, so it can be concluded that people who consume must have an income far above the price of a pet that they buy.

Third, the economic cost is small. The optimal tax rate theory states that taxes should ideally not interfere with people's consumption. Rich people's consumption of luxury goods is generally inelastic, meaning that they will keep buying even if the price goes up. According to



(Ma'aruf Ahmad, 2005) the demand for luxury goods has an elasticity greater than 1. Thus, a tax on luxury goods will result in a smaller deadweight loss than a tax on other goods. Taxing luxury pets has a smaller impact on the economy of people who purchase luxury pets.

Fourth, fairness. The imposition of STLG can be one of the ways for the government to improve justice among the people. The imposition of STLG will make the upper class of society bear a greater tax burden. (Kim, 2023) states that occupations such as doctors and lawyers are actually the ones who often do tax avoidance. This is also in line with (Thuronyi, 2004) which states that professions such as doctors, lawyers, accountants, and engineers with high levels of education often practice tax avoidance such as the utilization of presumptive tax. The upper class has the access and resources to carry out a number of tax avoidance schemes to hide their income. The imposition of STLG on luxury pets that are often consumed by the upper class will increase the tax burden borne by the upper class. In addition, (Kim, 2023) also assessed that identifying the purchase of luxury goods is easier to do than detecting hidden income. This is also in line with the nature of pet consumption, which is generally for display. The implication is that the cost of tax collection with STLG will be lower.

### **Impact caused by the implementation of the policy**

In terms of impact, the imposition of STLG tax on luxury pets has positive and negative impacts on stakeholders. In terms of state revenue from the tax sector, the new tax extensification imposed will increase tax revenue. In terms of state revenue, the STLG tax can be a significant source of revenue. With the existence of the STLG tax, the government can increase tax revenue and use the funds to improve the quality of public services and improve public welfare. In addition, the STLG tax can also help raise public awareness about the importance of better and more sustainable pet management, thereby improving the quality of life of the community and the environment.

Another impact of the additional cost component due to STLG is that the price of goods will increase, resulting in a potential decrease in sales. However, based on existing facts, the cost component related to pets will not reduce the interest of certain groups of people to own them because basically pet enthusiasts who have a high selling value are thinking about self-satisfaction whether it is as a hobby, prestige or as part of their business. The impact of the imposition of STLG is also muted by the scheme of imposition of STLG imposed through proportional tax and the inelastic nature of demand for these luxury goods.

The increase in the price of pets due to the imposition of STLG will create the potential for illegal purchases to avoid paying taxes and levies and obtain goods at a lower price. To overcome this, the government needs to tighten the monitoring system of the flow of goods in and out of the border to minimize the potential for smuggling of these animals. In addition, imposing high sanctions if tax evasion is found will make the cost of tax evasion on illegal purchases high. This will reduce the behavior of illegal pet purchases. This can be applied in Indonesia in monitoring the adoption of pets from abroad.

### **CONCLUSIONS**

Pets fit the characteristics of luxury goods in the VAT and STLG Law. Given the properties of pets such as dogs and cats, it is clear that they are not common goods and instead are often consumed by specific individuals. Many pet owners want to enhance their social status. This is reflected in the high price of luxury pets. The exorbitant price of a pet, one might assume that the owner is a wealthy person. By defining the product first in the law, the government, in this case the DGT, can include pets as new goods in the list of commodities subject to STLG. Pets are subject to STLG. DGT can cooperate with the authorized agency in issuing pedigree letters to facilitate domestic purchase and sale procedures by identifying the first party subject to STLG. This letter will simplify the procedure of determining the first party



subject to STLG. The price and type of animal that should be subject to STLG can be determined by the government using a threshold for each type of animal.

The limitation in this study is that the literature review approach is the only approach used in this study to analyze secondary data. Future researchers can conduct interviews with relevant parties for additional studies, including the Fiscal Policy Agency, the Directorate General of Taxes, and members of the public who buy and sell luxury pets. In terms of calculations to set a more appropriate threshold, more precise calculation techniques can be used. Avoid setting the threshold too low, as this would go against the original objective of keeping the tax burden evenly distributed among high and low income earners.

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