

Luxury goods sales tax (update)

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On May 20, 2021, the Parliamentary Budget Officer (PBO) published a legislative note of the cost of the introduction of a sales tax applied at the point of purchase of automobiles and aircraft valued over \$100,000 and vessels valued over \$250,000. The tax will only apply to new vehicles purchased for personal use. The tax rate will be the lesser of 10 per cent of the full value of the vehicle, or 20 per cent of the value above the threshold. This is a budgetary measure originally contained in the federal government's Budget 2021.

On April 7, 2022, Bill C-19 was introduced in Parliament to implement this measure. Subject to Parliamentary approval, this tax will come into effect on September 1, 2022.

5-Year Cost

\$ millions	2022-23	2023-24	2024-25	2025-26	2026-27	Total
Total cost	-87	-163	-170	-176	-183	-779

Detailed 5-Year Cost

\$ millions	2022-23	2023-24	2024-25	2025-26	2026-27	Total
Automobiles	-64	-120	-125	-129	-135	-572
Vessels	-18	-34	-35	-37	-38	-162
Aircraft	-5	-9	-10	-10	-11	-45
Total cost	-87	-163	-170	-176	-183	-779

Notes

- Estimates are presented on an accruals basis as would appear in the budget and public accounts.
- Positive numbers subtract from the budgetary balance, negative numbers contribute to the budget balance.
- Totals may not add due to rounding.

Estimation and Projection Method

The total sales volume of automobiles and aircraft valued over \$100,000 and vessels valued over \$250,000 for personal use was approximated using publicly available data. Sales volumes were linked to the assumed corresponding vehicle prices to determine the potential tax base. PBO assumed an elasticity of -2.4 based on academic studies of consumers of luxury vehicles.

The following tax rates were applied to determine the potential tax revenues:

Automobiles and aircraft:

1. 20 per cent of the value above the threshold (\$100,000) for automobiles and aircraft valued over \$100,000 to \$200,000; and

2. 10 per cent of the full value of the automobile or aircraft valued above \$200,000.

Vessels:

1. 20 per cent of the value above the threshold (\$250,000) for vessels valued over \$250,000 to \$500,000; and
2. 10 per cent of the full value of the vessel valued above \$500,000.

The PBO assumed that the sales of luxury vehicles would recover from the economic impact of COVID-19 by 2022. For 2022 and beyond, potential tax revenues were grown in-line with inflation and real GDP projections in PBO's economic model.

Sources of Uncertainty

Actual sales volumes for vehicles in this tax base are not known. For vessels and aircraft, PBO used registry and license data as a proxy for sales volume. The estimated revenues are highly sensitive to the price distribution of the total volume of sales. PBO used publicly available listings and MSRPs to approximate the distribution of prices and sales volumes. Actual distributions could differ from these samples. The following two notable provisions contained in the draft legislative are assumed to be relatively small and offsetting:

- relief to after-sale improvements that are made to vehicles, aircraft or vessels purchased below the relevant price threshold; and
- relief for aircraft purchased for use in the course of a business with a reasonable expectation of profit.

This cost estimate is dependent on the assumed recovery path of the sales of luxury goods. Due to the uncertainty surrounding COVID-19, the recovery path could differ. The estimate is also sensitive to exchange rates and uncertainty in the economic outlook.

A behavioural response is expected. The exact magnitude of this response is uncertain and depends on the price sensitivity of consumers.

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Data Sources

Variable	Source
Aircraft registry	Transport Canada
Aircraft and vessel prices	Publicly available listings
Automotive prices	Publicly available MSRPs
Automotive sales	Publicly available manufacturer sales
Price inflation, real GDP	PBO economic model
Vessel licenses and registry	Transport Canada

Supplementary Information: Change in Sales

\$ millions	2022-23	2023-24	2024-25	2025-26	2026-27	Total	% change
Automobiles	-242	-455	-473	-492	-511	-2,172	-14%
Vessels	-63	-119	-123	-128	-133	-566	-19%
Aircraft	-16	-30	-31	-33	-34	-144	-24%
Total change in sales	-321	-604	-628	-652	-678	-2,882	-15%

Notes

- Totals may not add due to rounding.
- Figures have been adjusted to correct a typographical error.

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