



OFFICE OF THE PARLIAMENTARY BUDGET OFFICER  
BUREAU DU DIRECTEUR PARLEMENTAIRE DU BUDGET

# Legislative Costing Note

This is an independent cost estimate of a budgetary measure contained in the federal government's Budget 2021. A list of the PBO's cost estimates of components of the Budget can be viewed on [its website](#).

Publication Date: 2021-05-20

Short Title: Luxury goods sales tax

Description: 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 tax will come into effect on January 1, 2022.

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	PBO economic model
	Vessel licenses and registry	Transport Canada

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 PBO assumed no impact on GST/HST revenues.

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 projections in PBO's economic model.



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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.

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.

Prepared by: Jill Giswold <Jill.Giswold@parl.gc.ca>

## Cost of proposed measure

\$ millions	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026
Total cost	-45	-150	-153	-156	-159

## Supplementary information

\$ millions	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026
Automobiles	-33	-110	-112	-114	-117
Vessels	-9	-31	-32	-32	-33
Aircraft	-3	-9	-9	-9	-9
Total cost	-45	-150	-153	-156	-159

## 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.
- "-" = PBO does not expect a financial cost.
- Numbers may not add due to rounding.