

# New Tax on Select Luxury Goods as of January 2022 (or at a later date)

December 2021

## On-line Tax Strategies

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**A new income source for the government? How about a new tax on the sale of select goods?**

A new “luxury” tax could apply as of January 1, 2022 on the retail sale of new personal cars and aircraft with a retail sale price over \$100,000 and new boats with a retail sale price over \$250,000. Importing such “designated property” will also be subject to this tax.

Here is a brief summary of the rules for vehicles covered by this new tax.<sup>1</sup>

### HOW WILL THE TAX BE CALCULATED?

The amount of the tax will be the lesser of:

- 20% of the value over the \$100,000 limit;
- 10% of the full value of the property.

### WHAT VEHICLES ARE INCLUDED?

Generally, the luxury tax will apply to motor vehicles that meet the following conditions:

- Designed primarily to carry people on highways and streets;
- Seats up to nine passengers;
- Gross nominal weight equal to or less than 3,856 kg;
- Manufactured after 2018.

Additionally, the vehicle must:

- Have a total delivered cost to Canada (or a total imported value to Canada) greater than \$100,000;
- Never have been put in service in Canada (i.e., never previously registered with a Canadian motor vehicle department), other than in connection with delivery or importing;
- Have been delivered to or imported by a non-registered person.

### ARE THERE ANY EXCEPTIONS?

The following vehicles purchased for personal use fall outside the scope of this tax:

- Motorcycles and certain off-road vehicles such as all-terrain vehicles and snowmobiles (since it is not expected to see these types of vehicles sold at prices of \$100,000 or more, application of this exception will be rather limited);
- Racing cars that are generally owned solely for on-track or off-road racing;
- Motor homes (i.e., “RVs”);
- Off-road, construction, and farm vehicles; and
- Certain commercial (e.g., heavy-duty vehicles such as some trucks and cargo vans) and public sector vehicles such as buses and police cars.

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<sup>1</sup> At your request, we would be pleased to provide more information regarding aircrafts and boats.

## IS GST/HST AND QST PAYABLE ON THIS TAX?

Naturally! The luxury tax will be part of the base subject to GST/HST and the same is expected to be true for QST. Furthermore, it cannot be recovered like an ITC or ITR. The new tax will therefore constitute a new income source for the governments.

## WHAT ARE THE TAX REGISTRATION AND REMITTANCE OBLIGATIONS?

Generally, a person will be required to register with the CRA when that person sells in the ordinary course of business vehicles, boats or aircraft that are considered "designated property", and when that person has sold or reasonably expects to sell such property within the next year.

Subject to certain exceptions, the luxury tax registrant will be required to collect this tax at the time physical possession of the designated property is transferred to the non- tax registrant.

In the case of companies that purchase vehicles to lease exclusively to third parties, lessors will be required to pay the luxury tax to their registered suppliers (e.g., manufacturers, wholesalers/importers, etc.). It is expected that this tax will be recovered indirectly in the monthly rental price that will be charged to the lessees of the said luxury vehicles.

The luxury tax could apply in respect of sales contracts entered into after April 20, 2021 if possession of the designated property is transferred to the buyer after December 31, 2021.

## EFFECTIVE DATE

The 2021 Federal budget set January 1, 2022 as the effective date of this new tax. In its December 14, 2021 Economic Statement, the government confirmed that the legislation to implement this tax, including details of how it will come into effect, will be released in early 2022.

The precise application date for this measure is therefore still not know. We will have to wait for the bill to be introduced to see whether it will apply retroactively to January 1, 2022, as initially announced. In the meantime, you can start preparing your contracts and sales in light of this eventual implementation.

Do not hesitate to contact your Raymond Chabot Grant Thornton advisor who can help you determine which measures apply to your situation and assist you with the steps needed to benefit from these measures. Get in touch with one of our advisors today!

You can contact us for more information on this topic.

For further information, visit our website at [rcgt.com](http://rcgt.com).