

Luxury Tax threshold

March 2022

Online Tax Strategies

On March 11, 2022, the Department of Finance released draft legislation on the Luxury Tax proposed in Budget 2021. The Luxury Tax applies on the sale and importation of certain new cars, aircraft over \$100,000 and boats over \$250,000.

The proposed implementation date of this tax has been adjusted from January 1, 2022 (as proposed in Budget 2021) to September 1, 2022. Vendors and importers will need to either charge or pay the tax on any vehicles, vessels, and aircraft manufactured after 2018 that have not been registered in Canada.

Vehicles, aircraft and boats subject to the Luxury Tax include:

- Most passenger vehicles manufactured after 2018:
 - Does not include RVs, emergency vehicles, and vehicles with seating capacity for more than 10 individuals;
- Most aircraft acquired for the leisure, recreation, sport or enjoyment of the owner or a guest, manufactured after 2018:
 - Does not include military aircraft, cargo aircraft, and aircraft where seats are sold to the public;
- Vessels (e.g., boats) that are designed or adapted for leisure, recreation or sports activities, manufactured after 2018, subject to certain exclusions for larger passenger and commercial vessels.

A person acquiring a vehicle for the purpose of leasing to others is subject to the tax.

No tax applies to vehicles, aircraft, and vessels that are registered with a federal or provincial government as required before September 2022 and where possession was transferred to the user before September 2022.

CALCULATION OF TAX

The Luxury Tax is applicable for vehicles, aircraft, and vessels with a retail value as follows ("the threshold"):

- Subject vehicle over \$100,000;
- Subject aircraft over \$100,000;
- Subject vessel over \$250,000.

The retail value includes the following:

- The Fair Market Value before trade-ins, discounts, and down payments;
- Any taxes, duties, fees levied on importation or as assessed by the seller (for example, document fees and environmental levies) excluding the GST/HST:
 - This may include provincial sales taxes where applicable;
- Freight charges;
- Modifications or improvements equal to or greater than \$5,000 made within 12 months of purchase.

The Luxury Tax is calculated at the lesser of:

- 20 per cent of the amount above the threshold; or
- 10 per cent of the full value of the luxury vehicle, aircraft or vessel.

Here is an example:

Vehicule	Price	
Price from retailer		\$106,000
(a) Luxury Tax (LT) @ 10% total value	\$10,600	
(b) LT @ 20% of value above \$100,000	\$1,200	
LT amount (lesser of a) and b))		\$1,200
Subtotal		\$107,200
GST		\$5,360
Total		\$112,560

Vendors of qualifying vehicles must register with the federal government to collect and remit the Luxury Tax.

REBATES

Rebates may be available in specific circumstances where the vehicle, aircraft, or vessel is exported outside of Canada. As proposed, the rebates are *only* available to registered vendors and applications for rebates may only be made once per quarter.

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.

Furthermore, for additional information visit us at rcgt.com.