EUCCAN
The Business Voice Of Europe
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# *Position Paper*
# Concerns on the implementation of the Luxury Tax by the Canadian government

## Introduction

Founded in 1995 in Toronto with the purpose of strengthening economic ties between Canada and Europe, The European Union Chamber of Commerce in Canada (EUCCAN) advocates on behalf of EU companies at all levels of the Canadian and European governments, identifying challenges and opportunities of doing business in Canada, addressing common affairs, and voicing business interests and recommendations to the EU and Canadian governments.
The EU is Canada's second-largest trading and economic partner, after the United States of America (US). The importance of the commercial exchanges between these two territories has justified the negotiation of the Comprehensive Economic and Trade Agreement (CETA), one of Canada's most ambitious and progressive trade agreements.
EUCCAN refers to Bill C-19 which imposes a luxury tax on the sale and import of subject vehicles that exceed $100,000, originally proposed in Section 10.1 of Budget 2021 and effective as of September 1, 2022.
In the view of EUCCAN and its members, this tax contravenes the spirit of CETA and the objectives shared by both Canada and Europe to strengthen our economic and commercial ties, and has a negative impact on the EU-Canada trade flows and imports of European vehicles.

## Luxury Tax

New subject vehicles worth over $100,000 will be subject to an additional luxury sales tax. 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.

**Table 1: Example of cost of new luxury vehicle including tax (GT)**

| Vehicle | Luxury Tax | Price |
|---|---|---|
| Price from retailer | | $106,000 |
| LT @10% of total value | $10,600 | |
| 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 |

## Market Access and Equivalent Treatment under CETA

CETA has been designed to cover all sectors and aspects of Canada-EU trade. Under CETA, Canada and the EU have the obligation to “eliminate or reduce” barriers to trade which increase the cost to consumers on imported goods. The elimination of tariffs provides competitive market access for products and services. In our view, the tax does not satisfy the fair and equitable treatment obligation. European brands account for more than 60% of the luxury car market in compact, midsize, and sport passenger cars. As European manufacturers dominate the premium and luxury automobile market, we are concerned that this tax has the effect of disproportionately targeting European manufacturers. It contravenes the principle of equivalence in applying tariffs and according the “most favourable treatment” as covered in CETA article 8.7 under Section C “Non-discriminatory treatment”. It further has a detrimental affect on facilitating competitiveness as covered in Article 21 which covers Regulatory cooperation. See Annex 1 for the full text of relevant articles. *(disproportionate effects / equivalence / imbalance)*

## Sustainability and environmental considerations

Canada has recently renewed its ambition to fight climate change at COP 27 and COP 15. Supporting the manufacturing and widespread adoption of zero-emission vehicles is a crucial driver in the fight against climate change, and the application of the luxury tax to electric vehicles has a deterrent effect to the purchase and use of such vehicles by Canadian consumers.

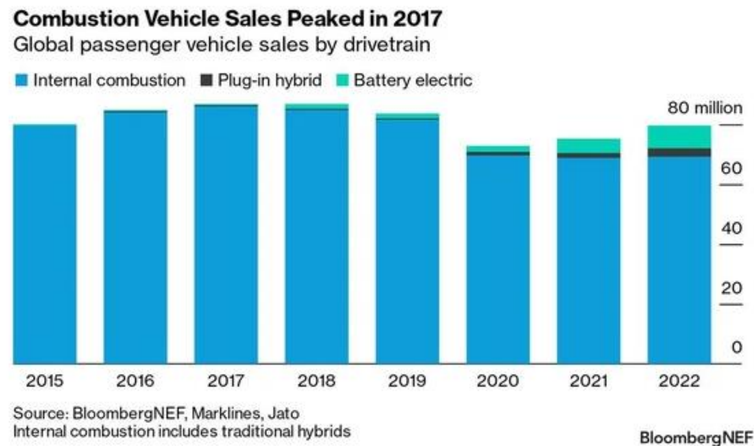
As there are currently zero exemptions for electric vehicles under the Luxury Tax, the tax appears problematic when viewed alongside Canada’s climate objectives and greenhouse gas (GHG) reduction targets. As manufacturing costs and consequences of electric vehicles are consistently higher than those of vehicles with combustion engines, the luxury tax is likely to apply more frequently and in excess amounts to the purchase of electric vehicles compared to Internal Combustion Engine (Ice) vehicles. Furthermore, luxury vehicles are well built, have the latest technology and the best resale value as compared to conventional vehicles, making them a more sustainable choice.

More than 95% of luxury sports cars are still in use after 20 years compared to only 18% of all vehicles. Less than 10% of all vehicles survive 25 years while 21.8% percent of small luxury passenger cars, 24.7% percent of high luxury passenger cars ,58.6% percent of luxury sport cars and 22.4% percent of luxury SUV’s survive 25 years of operation. This results in a significant opportunity for the circular economy related to these vehicles. The aftermarket for luxury vehicles in 2016 was around $5.2 billion dollars, and is growing by almost 10 percent per year. (Source: Luxury Market Review by D Desrosiers)
The market for used luxury vehicles would be close to twice the market size for new luxury vehicles. Because they are so well built and maintained they become valuable products from a consumer perspective unlike many older mass market vehicles that are simply scrapped as they get older. (Source: Luxury Market Review by D Desrosiers)

## Business impacts

The automotive industry has been negatively impacted by the pandemic, as new vehicle sales decreased in 2020-2021. A new tax threatens to further hinder recovery.

**Figure 1: Combustion vehicle sales pre- and post-pandemic**




Although the EU market is strong in the luxury automobile sector, there is a large global market, and customers will go elsewhere to purchase goods. Or, the purchases will be made and kept outside of Canada. Experts predict that thousands of jobs could be lost if enacted.
Examples in aviation and boating, which are also subject to the Luxury Tax, show that ultimately it is a tax on manufacturing and consequentially on the middle class whom we aim to support.

When the US applied a 10% luxury tax to boats in 1990, over 25,000 industry jobs were lost. Other country examples such as Spain, Italy, Norway, Turkey and New Zealand show that potential customers are disincentivized to make luxury car purchases, which has a negative impact on manufacturing employees who produce them.

For example, an estimate of the impact of the implementation of the Luxury Tax in the case of Germany shows a gain of more than 14.7 billion per year, but also a decline in GDP of more than 5% and a loss of other tax revenues such as income tax, VAT, corporation tax, etc., in the among of 46.1 billion. (Hamilton Spectator).

At the Standing Committee on Finance held in May 2022, which covered the Luxury Tax proposal, it was confirmed that no study had been done on the potential impact on the sales, jobs, revenue, and contracts of the manufacturing sector and consequently on GDP. Several Canadian MPs expressed concerns that the tax would undermine the competitiveness of the industry.

# Recommendation / Conclusion

**EUCCAN welcomes the significant European investments in the automotive sector in Canada, including the construction of electric battery plants and sourcing of critical minerals that have been announced recently. As you know, a transparent, stable and sustainable business environment is key for European companies and investors in Canada.**

**We ask you to consider our policy objections:**

- **The tax disproportionately targets European manufacturers who hold the largest share of production of the luxury vehicle market;**
- **The tax will not raise succeed in raising revenue, as exemplified in other instances of its implementation, and will in fact hurt businesses and the economy.**

**We would also like you to consider updating the Luxury Tax in the following ways:**

- **Introduce an exemption for the purchase of electric vehicles;**
- **Apply the tax only on the marginal amount over the $100,000 mark. As an example, a new tax on a $120,000 car after January 2022 would result in an additional $4,000 in taxes instead of the additional $12,000 tax that was originally proposed by the federal government.**

*Contact us*

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# Annex 1: Relevant Articles under CETA

**Section B – Establishment of investments**
Article 8.4 – Market access
Section 8.4.2.c. a measure restricting the concentration of ownership to ensure fair competition.
Article 8.5 Performance requirements
Section 8.5.1.c. purchase use or accord a preference to a good produced or service provided in its territory, or to purchase a good or service from natural persons or enterprise in its territory, e. restrict sales of a good or service in its territory that the investment produces or provides by relating those sales to the volume or value of its exports or foreign exchange earnings
2. A Party shall not condition the receipt or continued receipt of an advantage, in connection with the establishment, acquisition, expansion, management, conduct or operation of any investments in its territory, on compliance with any of the following requirements:
a. to achieve a given level or percentage of domestic content
b. to purchase, use or accord a preference to a good produced in its territory, or to purchase a good from a producer in its territory

**Section C – Non discriminatory treatment**
Article 8.6 – National treatment
1. Each Party shall accord to an investor of the other Party and to a covered investment, treatment no less favourable than the treatment it accords, in like situations to its own investors and to their investments with respect to the establishment, acquisition, expansion, conduct, operation, management, maintenance, use, enjoyment and sale or disposal of their investments in its territory.
Article 8.7 – Most favoured nation treatment
1. Each Party shall accord to an investor of the other Party and to a covered investment, treatment no less favourable than the treatment it accords in like situations, to investors of a third country and to their investments with respect to the establishment, acquisition, expansion, conduct, operation, management, maintenance, use, enjoyment and sale or disposal of their investments in its territory.
Article 21 Regulatory Cooperation
4. Without limiting the ability of each Party to carry out its regulatory, legislative and policy activities, the Parties are committed to further develop regulatory cooperation in light of their mutual interest in order to:

a. prevent and eliminate unnecessary barriers to trade and investment;
b. enhance the climate for competitiveness and innovation, including by pursuing regulatory compatibility, recognition of equivalence, and convergence; and

Article 21.3 – objectives of regulatory cooperation
b.vi. avoid unnecessary regulatory differences