

Cost Estimate of Election Campaign Proposal

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Short title: Luxury goods sales tax

Description: Introducing a 10% excise tax applied at the point of sale for purchases of personal automobiles, boats, and aircraft valued at \$100,000 or more (indexed to inflation). Commercial use of automobiles, boats and aircraft will be exempt.

Operating line(s): Other excise taxes/duties

Data sources:	<u>Variable</u>	<u>Source</u>
	Vessel registry	Transport Canada
	Vessel licenses	Transport Canada
	Aircraft registry	Transport Canada
	Automotive sales	DesRosiers Automotive Consultants
	Automotive, vessel, and aircraft prices	Publicly available listings
	Price inflation	PBO Economic Outlook

Estimation and projection method: The total sales volume of boats, aircrafts and automobiles valued at \$100,000 and above, for personal use, was approximated for 2019 using publicly-available data. Sales volumes were then linked to 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.

A 10% tax rate was applied on sales volumes to determine the potential revenues.

For 2020 and beyond, potential revenues were grown in-line with inflation projections in PBO's economic and fiscal model.

Uncertainty assessment: The estimate has high uncertainty. Actual sales volumes are not known. For vessels and aircraft, PBO used registry and license data as a proxy for sales volume. Additionally, the estimated revenues are highly sensitive to the price distribution of the total volume of sales. PBO used publicly available listings to approximate the distribution of prices and sales volumes for vehicles sold in any given year. Actual distributions could differ from our sample. The price and demand of imported vehicles could vary with exchange rate fluctuations. Moreover, sales of luxury goods are sensitive to uncertainty in the economic outlook. A behavioural response is expected, as buyers might switch to lower-priced products and sellers could offer pricing options to avoid this tax. The exact magnitude of this response is uncertain and depends on the price sensitivity of consumers.

Cost of proposed measure

\$ millions	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028	2028-2029
Total cost	-	-585	-597	-609	-621	-633	-646	-659	-672	-686

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