

The Economic Impact of the Select Luxury Items Tax Act on the Canadian Aerospace Industry

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Jacques Roy, Ph.D.

Professor
Department of Logistics and Operations Management
HEC Montréal

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INTRODUCTION

The Government of Canada has introduced a Select Luxury Items Tax (luxury tax) on the sale and importation of certain vehicles and aircraft valued above \$100,000 and certain vessels valued above \$250,000 that is deemed to come into effect on September 1, 2022. Under the Select Luxury Items Tax Act (the Tax Act), Canadian aircraft manufacturers will be required to register with the Canada Revenue Agency (CRA) as registered vendors and collect the luxury tax.

The purpose of this paper is to study the economic impact of this luxury tax on the Canadian aerospace industry, including aircraft manufacturers, their suppliers and the organizations engaged in maintenance, repair, and overhaul (MRO) activities. It will be shown that this new luxury tax will have a negative detrimental impact on the industry. The following points will be further explained in this study:

- The luxury tax is counterproductive, and it will result in lost sales and employment for Canadian aerospace manufacturers, their suppliers and MROs.
- The luxury tax will result in the loss of at least 2,000 direct jobs representing \$149 million in lost salaries contributing to \$29.9 million yearly in income tax revenues for the federal government, which far exceeds the \$9 million a year in expected revenue by the government.
- The Tax Act is counter productive to achieve the government of Canada's carbon neutrality goal by 2050 as stated in the Aviation Climate Action Plan.
- With its 90% threshold on business usage for business jet and helicopter, the luxury tax may well be very difficult to administer and result in uncertainty and additional lost sales.
- The timing for this new tax is highly questionable after two years of Covid-19 pandemic and its negative impact on the aviation sector.

- With this new luxury tax, the Canadian government is sending a wrong message as to the importance of this strategic industrial sector for the Canadian economy.
- In the future, foreign direct investments in aerospace projects and programs may be directed to other countries deemed more supportive than Canada.
- Foreign aircraft manufacturers have already started using this new luxury tax as a marketing tool in order to convince their non-Canadian customers not to buy an aircraft from a Canadian manufacturer in order to avoid any risk of being liable to the luxury tax. Therefore, the Luxury Tax will likely also have an impact on exports.

To assess the impact of the luxury tax on the Canadian aerospace industry, personal interviews were conducted with major aircraft manufacturers (business and helicopters) and suppliers, smaller stakeholders (SMEs), and MROs. Various documentation and reports were also consulted.

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THE IMPACT OF THE SELECT LUXURY ITEMS TAX ON LOST SALES AND EMPLOYMENT

2.1 The impact on business aircraft

Some Canadian aircraft manufacturers will be impacted by the new luxury tax as they manufacture business jets and helicopters that may be sold to private individuals for their personal use.

However, the vast majority of business aircrafts sold in Canada are either exported or sold to Canadian companies for business use and, therefore, should logically be fully exempt from the tax. In reality, the number of business aircrafts sold to private individuals for their personal use is relatively small. The difficulty here is the definition used by the Tax Act for the determination of business usage exemption as it requires a buyer to use the aircraft for business at least 90% of the time. This threshold limit is quite high compared to the 50% primary use test used in other federal tax regimes (income tax, GST). The proposed threshold may also be difficult to administer for both the government and aircraft buyers.

2.1.1 Why would the 90% business use threshold be difficult to administer?

To answer this question, it is necessary to understand how business aircraft owners manage their aircraft. For the type of business jets and helicopters sold by Canadian companies, the customers will usually outsource the management, servicing, and maintenance of these aircraft to management and leasing companies like Starlink Aviation. Most of these owners do not use their aircraft at full capacity (typically 70% to 80%) and will therefore ask leasing and charter companies to rent them out to other customers when they are not in use (typically 20% to 30% of the time). Owners will earn some revenue by chartering out their aircraft which will reduce the cost of owning and maintaining these assets. From the perspective of jet owners, this chartering of their planes is considered as a commercial activity as it generates revenue.

It is however difficult to determine the usage of the operators who are renting these aircraft from leasing and charter companies. The issue is compounded by the fact that the Canadian-based leasing companies may rent these aircraft to US charter brokers who in turn will charter the aircraft to their own clients, for which no or very limited information is available. It may therefore be quite challenging, if not impossible, to determine whether the purpose of this trip is business or personal. The 90% business use threshold is therefore a constraint that will be even more difficult (if not impossible) to validate as very little use that may be in a grey zone would tip the scale one way or the other. In this context and based on the practices of this industry, it would be much simpler to use the regular 50% plus primary use test as in other federal tax regimes.

2.2 The impact on business jet manufacturers

The introduction of the luxury tax might result in the loss of sales of ten business jets so far in 2022, which would amount to a loss of USD410 million in revenues or close to \$540 million. The reasons mentioned by potential Canadian buyers for reconsidering their decision to buy those business jets are listed in table 1. The loss of 10 aircraft sold so far this year may seem like a small number but it is significant and so are the lost revenues.

Table 1

REASONS INVOKED BY POTENTIAL BUYERS FOR RECONSIDERING THEIR DECISION

REASON FOR RECONSIDERING BUYING A BUSINESS JET
1. Client is looking at alternatives of basing the aircraft in the U.S. and may purchase from a U.S. competitor, in order to eliminate any potential luxury tax risks.
2. Client is no longer pursuing purchase because of the proposed Tax Law. Should the business threshold be 75% or lower, they may reconsider their decision and proceed with the purchase.
3. Client walked away or put the aircraft purchase on hold because of the proposed Luxury tax.

Note: One client mentioned reasons 1 and 2

2.2.1 The impact of the luxury tax on business jet's employment and government revenues

If we assume that the sale of 10 airplanes will be lost in 2022, this will translate in the loss of the equivalent of approximately 750 direct jobs in Canada, based on an earlier report submitted by the industry in September 2021¹. The loss of those 750 direct jobs could translate into the loss of 2,850 full-time jobs in Canada considering the direct, indirect, and induced impacts of these lost jobs in the Canadian economy. According to a recent report prepared by PricewaterhouseCoopers (PwC)², the lost jobs would have generated more than \$231 million in salaries which would have provided \$94 million in tax revenue for various levels of government. Assuming a 20% federal personal income tax level, these lost salaries would represent a loss of more than \$46 million in revenues yearly for the federal government, which is more than the \$45 million revenues that the Parliamentary Budget Officer expects to generate over a five-year period from the luxury tax imposed on applicable aircraft sales.

Another way of measuring the impact of the loss of 750 direct jobs in the airplane industry is to consider the average salary of production workers, \$90,000, that would translate into a loss of \$67.5 million in salaries, which is quite a significant amount. Assuming a 20% federal personal income tax, this would result in a loss of \$13.5 million per year for the federal government or 50% more than what it expects to generate as revenues on a yearly basis from the luxury tax on aircraft. Considering the negative impact on the business jet industry, it is reasonable to recommend that the Canadian government exempt all aircraft from the luxury tax.

¹ Bombardier's submission to the Department of Finance, September 29, 2021.

² The economic footprint of Bombardier's activities 2021-2025, Report prepared by PwC, March 2022.

2.3 The impact on helicopter manufacturers

The industry sells an average of 5 helicopters per year to private individuals who may be impacted by the luxury tax. Should those sales be lost, they would represent the loss of 15 full-time highly skilled and well-paid employees per year. Assuming an average salary of \$75,000 per year, this loss would translate in lost salaries of \$1.3 million yearly.

According to industry stakeholders, so far this year, at least 4 private individuals have decided not to buy new helicopters as a direct consequence of having to pay an additional 10% luxury tax. They either postponed the purchase hoping the tax will be withdrawn or decided to look to the used market to buy an older and less fuel-efficient aircraft, which is not conducive to achieving Canada's carbon neutral goal by 2050. The specter of the luxury tax has actually been felt for the past two years with customers postponing their decision to buy a new aircraft which already resulted in lost revenues for the original equipment manufacturer (OEMs) and their suppliers.

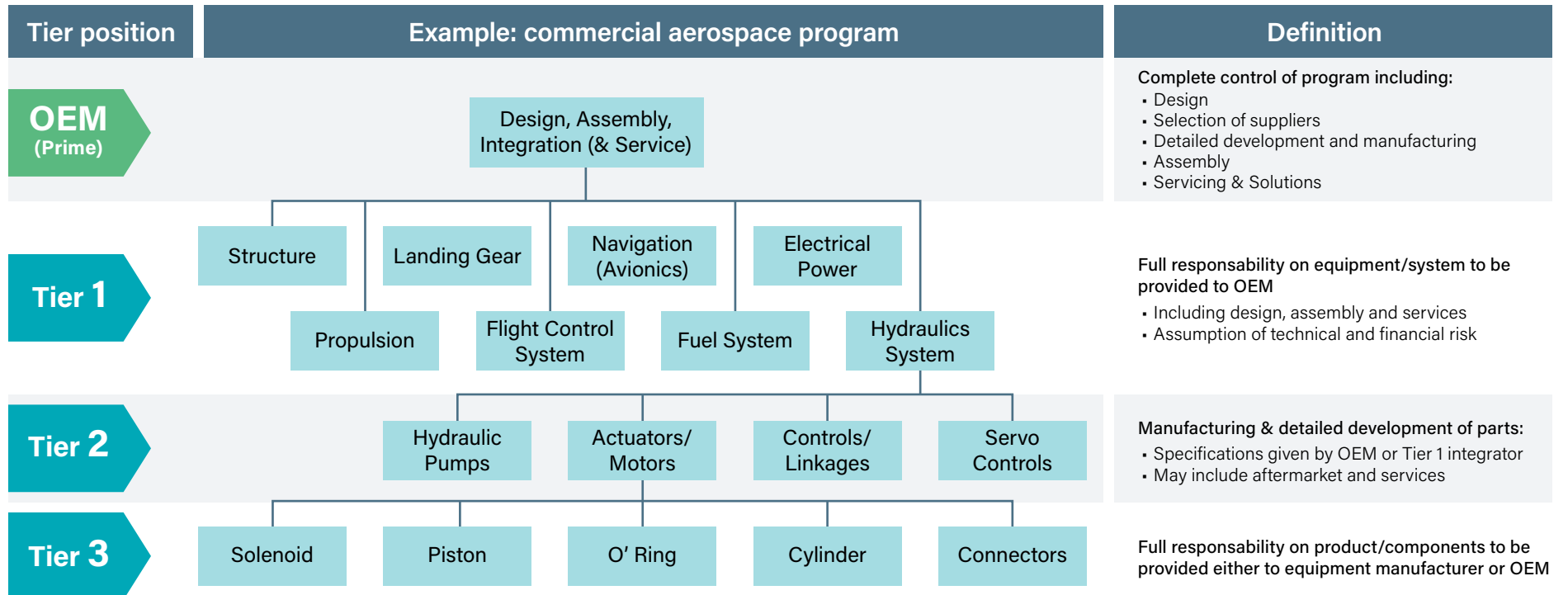
Beyond the loss of sales and direct jobs, the introduction of the luxury tax is impacting the Canadian aerospace industry by sending a message that the Canadian government is not supportive of this strategic industry. Subsidiaries of major OEMs must demonstrate their competitiveness to attract investments in new programs in Canada instead of elsewhere in the world. When making such major investments in foreign countries, large multinational companies will consider several factors including the support they are likely to receive from the foreign country's government. This support may range from direct grants, loans, R&D incentives, and other regulatory and tax measures. In this context, the introduction of a new luxury tax by the Canadian government will be perceived negatively when it comes to choosing where future direct investments will be made.

2.4 The impact on the aerospace supply chain

Besides OEMs, the luxury tax will also be detrimental to the whole Canadian aerospace supply chain. As shown in figure 1, this supply chain is made up of several layers of suppliers called tiers. Some of the Canadian tier 1, 2 and 3 suppliers serve Canadian manufacturers, but others also provide parts and components to foreign manufacturers who may be impacted by the luxury tax.

Figure 1

TIER STRUCTURE OF THE CANADIAN AEROSPACE INDUSTRY



Source: Adapted from PricewaterhouseCoopers for the Aerospace Review³

³ Emerson, D., "Beyond the Horizon: Canada's Interests and Future in Aerospace, volume 1", Review of Aerospace and Space Programs and Policies, Industry Canada, November 29, 2012.

2.4.1 The impact on major suppliers

As shown in figure 1, the tier one level includes aircraft suppliers that provide essential parts for aircrafts. Suppliers will be negatively impacted by the luxury tax even though they don't sell aircraft to private individuals if their customers do. In other words, tier one suppliers in Canada will be impacted by the luxury tax notwithstanding that they sell to Canadian or foreign OEMs; the impact will be hardest felt on the tiers 1, 2, and 3 in Canada due to the extensive ecosystem of aerospace suppliers in Canada.

Some OEMs are subsidiaries of foreign companies who will eventually decide where the next direct investments will be made. Will those new products be developed and manufactured in Canada or elsewhere in the world? Will the lucrative aftermarket business (maintenance and repair) be performed in Canada or elsewhere in the world? Once again, the support that the Canadian government is perceived to provide to the aerospace sector is a critical location factor when it comes to making such major investments. The introduction of a luxury tax on aircraft is definitely sending a wrong message to these high-level decision makers.

2.4.2 The impact on other suppliers

It is very difficult to evaluate the impact that lost sales in business jets and helicopters would have on the whole Canadian supply chain. We find that the 8,750 direct jobs for the business jet sector in 2021 have sustained 13,900 indirect jobs through spending with suppliers. Using the same ratio of indirect to direct jobs, it is fair to assume that the loss of 750 direct jobs resulting from the Select Luxury item tax for that sector alone would cause the loss of an additional 1,191 jobs in the business aircraft's Canadian supply chain. Assuming a conservative average yearly salary of \$60,000, these lost jobs would translate in \$71.5 million of lost income for Canadian workers with business jets' suppliers. As for helicopters, if we assume that only 4% of their sales would be lost because of the luxury tax, this could reduce their spending with Canadian suppliers by \$6.5 million with resulting job losses throughout the supply chain.

To illustrate the impact on suppliers, we can cite the case of a mid-size part manufacturer located in the Maritimes whose CEO we interviewed for this study. He was very much concerned with the uncertainty linked to the introduction of the luxury tax as it could impact the amount of work performed by his company for OEMs. He mentioned that if he was to lose 25% of its Global Express business with Bombardier, this business segment would no longer be profitable, and it would put at risk the 30 employees dedicated to this work.

2.5 The impact on business aviation, MROs, and other stakeholders

2.5.1 The impact on business aviation

To measure the impact on business aviation, we will exclude the manufacturing side which has been considered with OEMs. We will therefore focus on the operations side of the business. According to a study conducted for the Canadian Business Aviation Association (CBAA), the direct employment generated by business aviation operations in Canada, mostly within Fixed-Base Operators (FBOs) and company flight departments, represented a total of 11,500 FTEs with wages of \$900 million in 2017⁴. Because of the luxury tax, some of the potential business aircraft buyers may decide to postpone the purchase of new aircraft or look for alternatives including operating from a U.S. location. Should only one percent of the operations-related jobs be impacted by the luxury tax, this would translate in the loss of \$9 million in salaries based on the 2017 data. Assuming a 20% personal income tax rate, the federal government would lose another \$1.8 million in revenues.

2.5.2 The impact on MROs

MROs are companies engaged in the maintenance, repair, and overhaul of aircraft and its components. In Canada, the MRO sector accounts for 30% of the aerospace industry's activities and contributed close to \$8.4 billion to Canada's GDP in 2019⁵. The impact of the new luxury tax on the MRO sector is two-fold. There will eventually be less business for MRO companies in Canada should aircraft buyers decide to relocate their operations in the U.S. or if they decide not to buy such assets and operate them in Canada. Canadian MROs can also be impacted if their customers decide to outsource those activities to other countries where they feel more welcome. According to a medium-size MRO representative established in Ontario, the luxury tax could translate in the loss of up to 10% of its annual sales and result in the loss of one technician out of seven. We can hardly extrapolate this loss of jobs to the whole MRO sector, but it seems to be quite detrimental to some small and medium size companies in the industry.

2.5.3 The impact on other small businesses

The luxury tax will also impact small businesses, notably those engaged in technology development and innovation. In some cases, some uncertainty remains as to how the concept of "reasonable expectation of profit" under the new Luxury Tax rules will be technically and practically applied. One company feels that this uncertainty is not worth the risk. Therefore, they may have to pay an additional amount for the luxury tax which would be prohibitive and might lead the company to consider moving to the U.S. or use an older plane for its experiment development.

⁴ Intervistas, Economic Impact of Business Aviation Operations and Business Aircraft Manufacturing in Canada, Report prepared for the Canadian Business Aviation Association (CBAA), 2017.

⁵ 2021 Guide to Canada's Aerospace Industry, Report prepared by the Aerospace Industries Association of Canada (AIAC).

2.6 Summary of the impact of the luxury tax on lost sales and employment

The introduction of the luxury tax has already impacted the buyers of aircraft (business jets and helicopters) in different ways. Some buyers have decided to postpone the purchase of new aircraft in the hope that the tax will eventually be withdrawn. Others have decided to buy (or retain) a used aircraft even though this would translate in using a less fuel-efficient aircraft and not contributing to Canada's carbon neutral objective. Incidentally, business aircraft have been known to lead the way in terms of technological innovations like the use of composite material and, more recently, the development of zero emission airplanes such as the new Eviation Alice electric aircraft. Some business jet clients are also looking at alternatives of basing the aircraft in the U.S. and may purchase from a U.S. competitor. Finally, other clients are reluctant to buy because of the 90% business use threshold that they may be uncertain to attain.

This negative client reaction translates into lost sales for the Canadian aerospace manufacturers and their supply chain. For instance, the business aircraft segment could experience a drop of up to 8% in sales in 2022 because of the luxury tax. This would translate in the loss of approximately 750 direct jobs in Canada which would have generated 2,850 full-time jobs considering the direct, indirect, and induced impacts of these lost jobs in the Canadian economy. These lost jobs would have generated more than \$231 million in salaries and provided \$94 million in tax revenue for various levels of government. Should we only consider the loss of the 750 direct jobs resulting from the luxury tax, they represent a loss of \$13.5 million per year in personal income tax for the federal government or 50% more than what it expects to generate yearly as revenues from the luxury tax on aircraft. Hence, the lost revenues for business aircraft alone would far exceed the \$9 million revenues that the Parliamentary Budget Officer expects to generate yearly on average over a five-year period from the luxury tax imposed on applicable aircraft sales.

As previously illustrated, should private individuals decide to postpone the purchase of 5 new helicopters per year or buy a used model, this might translate in the loss of 15 full-time highly skilled and well-paid employees per year. Assuming an average salary of \$75,000 per year, this loss would translate in lost salaries of \$1.3 million yearly.

The impact of lost sales also ripples down to the whole Canadian aerospace supply chain. For business jet alone, the loss of 750 direct jobs resulting from the luxury tax would cause the loss of an additional 1,191 jobs in business jet's Canadian supply chain. Assuming an average yearly salary of \$60,000, these lost jobs would translate in \$71,5 million of lost income for Canadian workers with suppliers. Again, the loss of \$14.3 million in income tax revenues for the federal government greatly exceeds the added revenues derived potentially from the luxury tax.

Obviously, the impact on other suppliers, will only add to the damage caused to the Canadian aerospace industry by the federal luxury tax. Furthermore, there will be a negative impact on employment generated by business aviation other than the OEMs. This impact could translate in the loss of 115 direct jobs representing \$9 million per year for the business aviation community in Canada. Table 2 summarizes the impact of the luxury tax on lost employment, salaries, and government income tax revenues.

The numbers displayed in table 2 are very conservative. They only consider the loss of direct jobs, and the numbers would be much higher if we were to add the indirect and induced jobs lost resulting from these 2,071 direct jobs lost. For example, we know that the 750 direct jobs lost in the business jet segment would translate in the loss of 2,850 full-time jobs considering the direct, indirect, and induced impacts of these lost jobs in the Canadian economy. The numbers in table 2 are based on reasonable assumptions, and they do not consider the potential impact on other OEMs and the potential negative impact on exports. They also underestimate the impact on MROs and other SMEs that we were not able to evaluate in this study. Consequently, it is fair to ascertain that the introduction of the luxury tax will result in the loss of at the very minimum \$30 million in personal income tax revenue per year for the federal government while it hopes to generate an average of \$9 million per year in revenues. Obviously, this luxury tax is not an economically sound proposition. And it also sends a wrong message to the whole aerospace sector as we will demonstrate in the next section.

Table 2
SUMMARY OF LUXURY TAX IMPACTS

STAKEHOLDER	Direct jobs lost	Lost salaries (\$ Millions)	Lost federal income tax (\$ Millions)
Business jet	750	\$67.5	\$13.5
Business jet's suppliers	1,191	\$71.5	\$14.3
Helicopters	15	\$1.3	\$0.3
Business aviation operations	115	\$9.0	\$1.8
Total	2,071	\$149.3	\$29.9

3

THE SELECT LUXURY ITEMS TAX AND THE FUTURE OF THE CANADIAN AEROSPACE INDUSTRY

3.1 The impact of the tax on the Canadian aerospace strategy

Canada is undoubtedly one of the leading aerospace countries in the world. In 2019, the Canadian aerospace industry has generated \$34 billion in revenues and contributed over \$28 billion to GDP and over 234,500 jobs to the Canadian economy, including more than 176,700 direct and indirect jobs. Over 70% of Canadian aerospace products are exported to over 195 countries around the world. More than 60% of these exported products were supply chain related. Aerospace is the most research-intensive industry in Canada with R&D investments of close to \$1 billion in 2019⁶. Obviously, the aerospace industry is a strategic and critical sector for the Canadian economy. One might view this as one industry where Canada punches above its weight and should be a source of pride for Canadians.

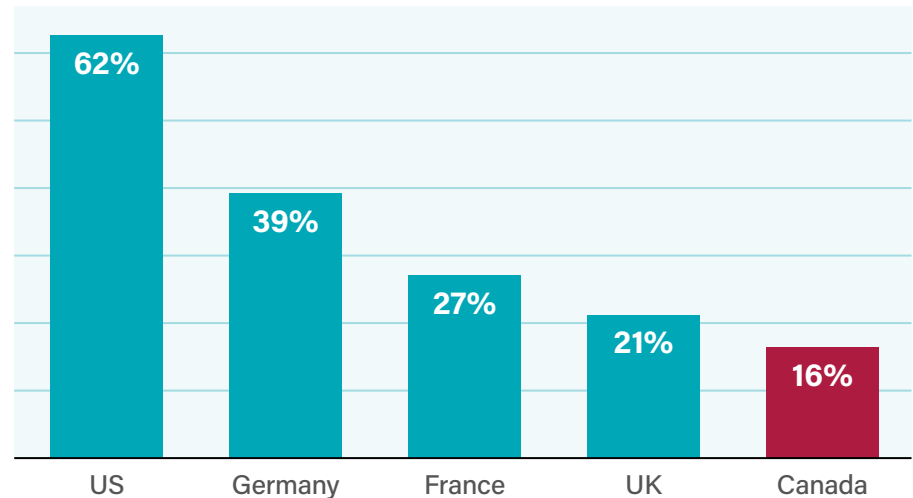
The Canadian aerospace industry is serving the global aviation industry which has a very strong footprint in Canada. As a matter of fact, Montreal is known as the “aviation capital of the world”. It is home to 12 international organizations, including United Nation’s International Civil Aviation Organization (ICAO), the International Air Transport Association (IATA) which represents most of the world’s airlines, as well as Airports Council International representing close to 2,000 airports globally. Unfortunately, many Canadian citizens tend to underestimate the importance that the presence of such international organizations in Canada represents in the aviation world not just in terms of prestige but also in terms of real employment, both direct and indirect, which they create. And Canada’s good fortune is regularly challenged by other countries that would be prepared to invest large amounts of financial resources to attract these organizations in their homeland, as shown by the recent attempt of Qatar to attract ICAO in its capital. One can easily imagine the detrimental impact of losing even one such organisation, as well as the potential collateral impact to the others’ decisions to remain headquartered in Canada.

⁶ 2021 Guide to Canada’s Aerospace Industry, Report prepared by the Aerospace Industries Association of Canada (AIAC).

Recognizing the importance of the aerospace industry, the Canadian government has historically been supportive of its development throughout the years with dedicated funding like the former Strategic Aerospace and Defence Initiative (SADI) and more recently the Aerospace Regional Recovery Initiative (ARRI) with a budget of \$250 million over three years until March 31, 2024. Provincial governments have also supported their crucial aerospace industry, notably by funding research initiatives and fostering collaboration with universities. However, the Canadian government support for R&D has traditionally fell short of what other competing countries have been providing to their domestic aerospace industry as shown in Figure 2. For example, most foreign countries support their aerospace industry through defense research and equipment acquisition contracts to companies that are also manufacturing civilian aircrafts and components. Moreover, some companies are supported directly by European governments through partial ownership. As shown in figure 2, while the share of R&D performed in the Canadian aerospace sector was 16% in 2009, it has fallen to 8.9% in 2020 according to Industry Canada.

In that context, the introduction of the luxury tax as of September 2022 is casting a shadow over the aerospace industry by negatively impacting its sales, employment, competitiveness, and reputation. According to all industry stakeholders met during this study, the luxury tax is counterproductive and no one really understands the logic behind this decision. As one stakeholder said: “Why would Canada want to hurt its own aerospace industry?”. Indeed, aerospace players are, at a minimum, looking to the federal government to do no harm to their industry.

Figure 2
SHARE OF AEROSPACE R&D FUNDED BY GOVERNMENTS – 2009⁷



Note: Includes funding from all levels of government. Data for Germany, France and the UK include funding from European Commission programs. Does not include tax credits.

Sources: US: National Science Foundation; Germany: Stifterverband statistics on R&D; France: Ministère de l'enseignement supérieur et de la recherche; UK: Office of National Statistics; Canada: Statistics Canada, Industrial Technologies Office and firm-level data.

⁷ Emerson, D., “Beyond the Horizon: Canada’s Interests and Future in Aerospace, volume 1”, Review of Aerospace and Space Programs and Policies, Industry Canada, November 29, 2012.

3.2 A bad timing for a luxury tax

Since 2019, the Canadian aerospace industry has gone through a period of crisis without precedent. The aviation sector has been hit hard by the Covid-19 pandemic and most airlines have cancelled or postponed the purchase of new planes, equipment and services. Consequently, the aerospace industry's contribution to the Canadian economy declined by \$9.4 billion in GDP and 35,200 jobs between 2019 and 2021. Nevertheless, the aerospace manufacturing sector has managed to maintain its top R&D ranking among all Canadian manufacturing industries in 2021⁸. As the Canadian aerospace industry continues to gradually recover from the pandemic, September 2022 is a very bad timing to introduce a luxury tax that will hurt the industry's competitiveness and development as shown in section 2 of this report.

3.3 The impact of the tax on foreign direct investments

As mentioned earlier, several of the largest aerospace OEMs established in Canada are subsidiaries of foreign multinational companies. These European and U.S. based companies play a major role when it comes to deciding where the next aircraft, engines, and equipment programs will be designed and manufactured. Whether it is a new helicopter built or a new engine developed and assembled, these new activities represent major direct investments and many highly skilled and well-paid jobs in Canada. Should some of these investments be made in foreign countries instead of Canada, no reporting of this missed opportunity will be flashed in Canadian media as they may not result in lay offs but will translate in missed opportunities and less employment growth in the future for the Canadian aerospace industry.

Top executives with those multinational companies are considering several criteria when it comes to deciding where those investments will be made. One of these criteria is the perceived level of support they expect to receive from the government of the country where they are contemplating to invest for the future. By introducing a new luxury tax on aircraft, the Canadian government is sending the wrong message to these companies by suggesting that their products are "pleasant to have but are not necessary" according to the definition of luxury goods in the Cambridge dictionary. To our knowledge, Canada is the only country in the world where a luxury tax is applied to aircraft. Obviously, none of the countries that are fortunate enough to have built a healthy aerospace industry would contemplate imposing a luxury tax on their outputs.

⁸ State of Canada's Aerospace Industry Report, Prepared jointly by Aerospace Industries Association of Canada (AIAC) and Innovation, Science and Economic Development Canada (ISED), Summer 2022.

3.4 The lessons to be learned from the U.S. experience

A luxury tax was implemented in the U.S. back in 1991. A 10% luxury tax was imposed on aircraft costing over USD250,000 and with an exemption where at least 80 percent of the aircraft's use was for business purposes. Other products that were taxed included private boats costing over USD100,000, cars costing over USD30,000, jewelry and furs costing more than USD10,000. In a report to the U.S. Congress prepared by the General Accounting Office⁹, it was concluded that the effects of this tax on the selected products, including aircraft sales, were nearly impossible to evaluate because of a lack of appropriate data and other factors affecting demand for these products such as the 1990-1991 recession. Interestingly, it was found that the majority of revenues from the luxury excise taxes (USD152 million of USD168 million collected in fiscal year 1991) were provided by cars.

Following the introduction of the U.S. luxury tax, there were several articles contesting its applicability and effects. One such article published in the Washington Post in July 1993, explained how a small aircraft manufacturer, Beech Aircraft, "lost sales amounting to 480 lost plane-building jobs, worth USD4 million in lost federal taxes. By contrast, between Jan. 1, 1991, and June 30, 1992, the Internal Revenue Service collected just USD158,000 in luxury taxes from airplane sales -- enough to run the Agriculture Department for 15 minutes¹⁰". In August 1993, the tax was eliminated as it generated more losses in jobs than revenues for the government. Such a tax has been tried elsewhere with disastrous results; Canada should draw on our neighbour's tried and tested experience with such a tax. The Canadian luxury tax is indeed very similar to the US luxury tax and there is no reason to believe that the negative impact the Canadian luxury tax will have on the Canadian economy will be any different from the one experimented in the US thirty years ago.

⁹ "Luxury Excise Tax - Issues and Estimated Effects", Report to the U.S. Congress prepared by the General Accounting Office, February 1992.

¹⁰ Glassman, J. K., « How to sink an industry and not soak the rich », Washington Post, July 16, 1993.

4 CONCLUSION

The luxury tax on aircraft is detrimental to the Canadian aerospace industry, a strategic, research intensive and export-oriented sector. The tax will generate very little revenue for the federal government as few aircraft will be sold to private individuals for personal purposes. It will however generate uncertainty and significant losses in sales, employment and hurt the Canadian aerospace industry's reputation as a conducive place to do business. As reported in table 2, the luxury tax will result in the loss of at least 2,000 direct jobs representing \$149 million in lost salaries contributing to \$29.9 million yearly in income tax revenues for the federal government. This doesn't even account for the negative impact on the provincial taxes. This loss of revenue for the federal government greatly exceeds the average \$9 million per year it hopes to generate with the luxury tax on aircraft.

In this report, it has been shown that:

- The luxury tax is counterproductive, and it will result in lost sales and employment for Canadian aerospace manufacturers, their suppliers, and MROs.
- The luxury tax will result in the loss of at least 2,000 direct jobs representing \$149 million in lost salaries contributing to \$29.9 million yearly in income tax revenues for the federal government.
- The Select Luxury Items Tax Act is counter productive to achieve the government of Canada's carbon neutrality goal by 2050 as stated in the Aviation Climate Action Plan.
- With its 90% threshold on business usage, the luxury tax for business jet and helicopter will be very difficult to administer and result in uncertainties and additional lost sales.
- The timing for this new tax is highly questionable after two years of Covid-19 pandemic and its negative impact on the aviation sector.
- With this new luxury tax, the Canadian government is sending a wrong message as to the importance of this strategic industrial sector for the Canadian economy.
- In the future, foreign direct investments in aerospace projects and programs may be directed to other countries deemed more supportive than Canada.
- A similar tax was established in the U.S. in 1991 and withdrawn shortly after in 1993 as it resulted in more job losses than revenues.