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Via email to: fin.luxury-luxe.fin@fin.gc.ca

RE: Consultation on draft legislative proposal to implement the Luxury Tax

We would like to thank the government for providing Canadians the opportunity to share comments on this draft legislative proposal. It is our expectation that the following recommendations can effectively impact the final design of the legislative proposal of the Luxury Tax.

As the largest aviation association in Canada, the Canadian Owners and Pilots Association (COPA) is well positioned to represent the emergent needs of aviation in Canada, in particular, General Aviation (GA). Our efforts focus on keeping Canadian aviation accessible and affordable, addressing the pilot shortage, promoting safety and lifelong learning and ensuring that Canadian skies are shared safely and equitably.

COPA's feedback letter dated 30 September, 2021 solicited this government to consider the impact of the proposed luxury tax on the GA community. Owning or sharing the cost of an aircraft in Canada is not a luxury but a budgeted expense. For most private pilots, any type of ownership requires hard work, resolve, crafty budgeting and sacrifice, all of which contributes to the stimulation of the economy. According to an economic impact study conducted by InterVistas in 2017, for COPA, GA contributes close to 10 billion dollars to the Canadian economy (see [Economic Impact of General Aviation in Canada 2017](#)).

New legislation should not unduly harm the aerospace industry as it continues to recover from the effects of the pandemic. While the Canadian government is trying to open international markets for our industry, it is consequently closing doors here in the domestic market. A similar tax was introduced in 1990 in the United States but was cancelled three years later due to the negative effects it had on American manufacturers ([read here](#)).

COPA has several recommendations toward the proposed legislation of a luxury tax. To begin, the draft proposal provides a comprehensive list of aircraft that would be exempted (qualifying flights); however, several other activities that enable economic growth and development of this country, at a time when it is most required, are not exempt. This is an inequitable application of the tax.

The recently published draft proposal, with a planned implementation date of September 1, 2022, provides details that continue to present significant challenges for the GA community such as the tax certificate and compliance burden on both new and used aircraft; and most importantly, the fact that the \$100,000 baseline for new aircraft purchases remains at an unrealistic low value. These issues remain unaddressed.

COPA's earlier submission underscored the rising costs faced by GA pilots whom, for the most part, are currently flying older aircraft. The proposed \$100,000 baseline will be a major deterrent to those who want to convert to newer aircraft with lower operating and maintenance costs as well as lower carbon footprint. The baseline value is unrealistic primarily because there are no newly manufactured (with a manufacture date later than 2018) aircraft, light or small, available at this price. This is in obvious contrast to luxury car and boat ownership, as thousands of car models under \$100,000 and boat models under \$250,000 exist. A typical, entry-level light aircraft such as a single engine Cessna 172 model (often used in flight training) sells for roughly \$600,000.00.



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Furthermore, aircraft with lower operating costs and a much smaller carbon footprint would sell for closer to \$750,000 once all current transportation fees and tariffs are included. Aircraft that use electric motors for propulsion are readily available to GA pilots for prices between \$600,000 to \$750,000. These “zero emission” aircraft are modern and safe to use in Canadian airspace and the government should be encouraging their usage, not hindering it.

With a raised baseline, the luxury tax surcharge on these green or lower-emission aircraft would be much lower and reduce the barrier. With the reduced surcharge many older aircraft with relatively large carbon footprints that burn leaded fuels have the potential to be replaced. No luxury tax at all under a federally sponsored “fly green” exemption for private aircraft owners would be a very wise initiative and could be used to support Canadian aircraft manufacturers. These newer and “greener” aircraft would enhance safety and reduce emissions and costs. Additionally, with a raised baseline, and no tax to “green” aircraft, many activities which have not been listed as exempt, will become exempt and would continue to contribute to the growth of the Canadian economy.

Additionally, new modern aircraft manufacturers strive to increase and maximize safety within GA. New aircraft are now equipped with safety enhancing features which constitute a significant part of the cost of modern low-end aircrafts. These safety enhancing features alone can cost upwards of \$100,000. The luxury tax targeted to low-end aircraft as proposed is **a tax on aviation safety and innovation**.

Also of grave concern is the fact that the Luxury Tax on new aircraft will likely not be a one-time event (see example below). Aircraft taxed upon importation or purchase can be re-taxed if the new owner upgrades the aircraft equipment within the first year of acquisition. This upgrade could be due to government regulations such as mandatory flight tracking equipment. As described in the Consultation document, the CRA-managed system will be layered on top of Transport Canada (TC) management of aircraft registration and airworthiness certification processes. This onerous layer will come with additional time, administration costs and overhead.

The CRA tracking system becomes even more onerous when the imported or purchased aircraft is branded as untaxed or “Tax Out” because the declared activity for the aircraft is one of the CRA-approved exemptions. Aircraft registrations and airworthiness certificates change when ownership changes, the tax status and activity type(s) for each aircraft may well have to become new elements of every new aircraft that is registered in Canada. This additional layer of administration will present real-world challenges when more remote operators change assigned aircraft activities or ownerships.

COPA has additional concerns regarding the “assessment of value” of an aircraft that was originally exempted when it is transferred to an owner whose declared activities is no longer qualifying and exempted and would therefore be obliged to pay the Luxury Tax. This transfer sale could be many years after the original purchase. The Consultation document proposed that the aircraft’s “fair market value” be used at the time of transfer to determine the new status as taxed or untaxed. In a market where the general trend is one of appreciating values then an aircraft that was exempted initially because of either an exempted activity or being below the baseline value could easily become a liability to the new owner when it becomes “tax in.”

Example: A flight school purchases a new aircraft, for the purpose of flight training, with a manufacture date of 2020 in October 2022. This activity qualifies for an exemption under this proposed legislation. The cost of the aircraft is \$600,000 (plus applicable taxes – GST and HST in some provinces). The aircraft is used for 15 years at which point the flight school would want to sell it in order to purchase new, more efficient and greener aircraft for the purpose of training its student pilots. It is not an assumption to say that the flight will have done some upgrades to the



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aircraft – as a result of new Transport Canada Regulations, in order for it to remain up to date on the latest and safest technology. The cost of these upgrades, in today's market, could be upwards of \$50,000.

The flight school now wants to sell (or lease) this now used aircraft. Since it would not come with a CRA Tax paid certificate and has had many upgrades, (contributing to the appreciated value of the aircraft) the “fair market value” of the aircraft is now higher than its original purchase price.

Any potential buyer, a private pilot, is now faced with paying a luxury tax, as proposed, on a 15-year-old aircraft at the appreciated value. **This is no longer a tax on new aircraft as it was originally proposed.** This will hinder the qualifying seller as much as the buyer.

The aircraft purchase price, at a minimum, is now \$650,000 plus \$32,500 GST (other tax may also apply depending on the province and can be upwards of 15%). Under this proposed legislation, an additional \$68,250 applies. The total purchase price of that 15-year-old used aircraft is now \$750,750! This tax will undoubtedly debilitate the economic viability of this industry.

- **Lesser of:**
 - 20% of the value above the price threshold (\$100,000 for aircrafts) $20\% \times (\$682,500 - \$100,000) = \$116,500$ or
 - 10 % of the full value of the aircraft $10\% \times \$682,500 = \mathbf{\$68,250}$.

As a direct result, there will be fewer private aircraft being purchased. These private aircraft will no longer support community aerodromes who depend on this activity to subsist. These flights will no longer contribute to the economic growth of these small communities. The trickle-down effect of the implementation of this luxury tax on private aircraft, as proposed, will have long term detrimental effects on the average working-class Canadian family.

The compliance burden has not yet been discussed; however, it must be said that this tax creates a hugely disproportionate compliance burden on the middle-class private citizens who will be affected. Rather than something simple like a special GST/HST rate for private aircraft purchases, the government has chosen to create an entirely new type of tax, with its own compliance steps. This regime will be so complex that not only will private aircraft owners have to pay the tax, but they'll also have to pay accountants and lawyers to administer and review compliance of it. That creates an issue in and of itself, is excessive and unwarranted.

Aerospace has been one of the hardest-hit industries through the pandemic, as acknowledged in Budget 2021. Government research by Innovation, Science and Economic Development (ISED) revealed that Canadian aerospace lost almost 30,000 jobs in 2020 alone and the sector's contribution to Canada's GDP declined by \$6.2B . However, Canadian expertise in aircraft manufacturing, including helicopters, propeller, turboprops and jets, and the associated supply chains for parts, systems and services helped to buoy against the even steeper declines seen globally. Aircraft manufacturing should be a strength for Canada, providing a solid foundation for recovery and jobs, and should not be punished in a misdirected effort that will target manufacturers and their workers.



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Short of removing aircraft altogether from the proposed new legislation, COPA is urging the government to adopt the following recommendations:

1. **Raise the baseline**
 - \$100,000 is unrealistic and should be raised to \$5,000,000, a more acceptable value that is representative of an aircraft that might actually be considered luxurious (a \$600,000 Cessna 172 single engine often used for training is hardly that) and should be indexed with inflation.
2. **Put a cap on the Luxury Tax**
 - The Luxury Tax should be subject to a maximum amount of \$1 million (i.e. the Luxury Tax would be capped for acquisitions of aircraft at a cost in excess of \$10 million) so as to promote compliance and not stifle the benefits of aircraft up-grading (i.e., safety and emissions benefits) even in the case of recreational use.
3. **Simplify the process**
 - Acquiring and maintaining a Tax Certificate for the life of the aircraft is onerous. Set a one-time only process on new aircraft only, at the raised baseline. Once the aircraft becomes used, regardless of its activity, it would not be subject to this luxury tax. CRA tracking would only require a one-time entry in the federal registry without the annual and transfer of ownership tracking costs and administration.
4. **Develop a “Fly Green” exemption**
 - Lower emission aircraft that use lead-free fuels or electric aircraft should be exempt, regardless of cost or activity. This will incentivise owners to purchase newer and greener aircraft. This will not only reduce the Canadian carbon footprint but stimulate the economy as set Canada as a world leader in promoting innovative green technology.
5. **Use depreciated aircraft values**
 - If a CRA tax in certificate is required for all aircraft, new and used, as proposed, with a manufacture date of greater than 2018, swap “fair value” for depreciated value when transfers of ownership occur (as with cars and boats) to limit the long-range impact of the Luxury Tax.
6. **Remove the Tax on improvement**
 - To provide aircraft owners incentive to upgrade to ever changing safety requirements, any tax on improvement should be removed. Equipping an aircraft to meet safety requirements should never be considered luxury and should never be subject to luxury tax.

COPA merits the Government for the more comprehensive list of activities that exclude aircraft from being assessed under the proposed Luxury Tax, as we had previously recommended. However, we must continue to assert that raising the baseline value will enable GA to reduce operating costs, carbon footprints and emissions; will have a positive effect on efficiency and flight safety in Canadian skies; and, will help stimulate the Canadian economy at a time it is needed the most. Reducing the scope and simplifying the CRA-driven process of generating Tax-paid Certificates to a simple one-time tax-in or tax-out status would minimize that impact of this tax and reduce the administrative costs associated with its implementation and compliance.



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We thank you again for this opportunity and earnestly lobby the government to adopt our recommendations for the purposes of finalizing the drafting of the legislative proposal for the Luxury Tax.

Sincerely,

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The Honourable Omar Alghabra, P.C., M.P., Minister of Transport