Canada’s new Luxury Tax: Why certain luxury items now cost more

September 09, 2022

Effective Sept, 1, 2022, a luxury tax (the Luxury Tax) will be charged on the sale or importation of many high-value vehicles, aircraft and watercraft (the Luxury Items). The Luxury Tax is triggered for vehicles and aircraft priced above $100,000 and watercraft priced above $250,000. The Luxury Tax is payable on the lesser of 10 per cent of the price of the Luxury Item or 20 per cent of that portion of the price exceeding the respective threshold.

Businesses that sell, import, lease or improve Luxury Items should consider their compliance obligations under this new *Select Luxury Items Tax Act* (the Act). This is especially the case since businesses themselves, not their customers, are generally liable for paying and reporting the Luxury Tax.

What you need to know

- The seller is liable to pay the Luxury Tax, not the purchaser.
- Luxury Tax applies to most sales or imports of Luxury Items happening on or after Sept. 1, 2022 (exemptions are described below).
- Anyone importing or selling these Luxury Items can trigger Luxury Tax obligations – importers, manufacturers and wholesalers beware.
- The Luxury Tax is calculated based on the “taxable amount” of a Luxury Item, which can includes costs like freight charges, customs duties and potentially other taxes.
- Vendors who fail to apply for the appropriate certificates and registrations before importing or selling Luxury Items risk serious penalties.

Luxury Items – what is included?

The Act refers to Luxury Items that trigger the Luxury Tax as a “subject vehicle”, “subject aircraft”, and “subject vessel”, each class which can generally be summarized as follows:

- **Subject vehicle** – a four-wheeled motor vehicle designed to carry 10 or less passengers on highways.

- **Subject aircraft** – an aircraft designed to carry 39 or less passengers, unless used for certain non-personal purposes.
- **Subject vessel** – a watercraft designed to carry 100 or less passengers, designed or adapted for leisure, recreation or sport activities.
- **Improvements** – lastly, improvements to a Luxury Item that exceed $5,000 in the first year after purchase trigger Luxury Tax.

Luxury Items – what is excluded?

The following classes of exemptions exclude the Luxury Tax from applying:

- **Late models & used items –** Luxury Items manufactured before 2019 and Luxury Items owned by a user and registered with the appropriate authority before September, 2022 are generally exempt (*e.g.* cars plated for use on public roads).
- **Old contracts** - Vehicles sold or imported under written agreements executed before 2022 are exempt.
- **Tax-paid luxury items –** The Luxury Tax is intended to tax each Luxury Item once. To track this for aircraft and vessels, the person liable to pay Luxury Tax (generally the importer or retail dealer) applies for a tax certificate for that aircraft or vessel confirming tax has been accounted for. Future purchasers can search an online database for this certificate to confirm the purchase is a tax-paid purchase. For vehicles registered with the appropriate authority, the exemption applies automatically (*e.g.* Luxury Tax is inapplicable after vehicles have been registered for use on public roads).
- **Heavy vehicles & special purpose vehicles** – Vehicles heavier than 3,865 kg, military, police, ambulance or hearse vehicles, and motor homes are generally exempt from the Luxury Tax.
- **Subject vessel & aircraft exemptions** – The Luxury Tax is meant to capture most personal-use watercraft and aircraft. For watercraft, Luxury Tax is generally inapplicable where the vessel is a floating home or designed for use in the seafood industry or as a ferry, or is used for purposes other than for leisure, recreation, sport or other enjoyment of the owner, lessor or their guest. For aircraft, Luxury Tax is generally inapplicable where the aircraft's Canadian flight time largely involves flights to or from certain remote communities or is for non-personal purposes. Both vessels and aircraft for military or police usage are also exempt.
- **Exported property & services**. Vehicles sold for immediate export or imported to Canada temporarily for maintenance, overhaul or repair are generally exempt from the Luxury Tax.

Notably absent from this list of exemptions are commercially-used cars and trucks. Many passenger vehicles that would qualify as "subject vehicles" are not necessarily acquired for a "luxury" purpose, yet exceed the $100,000 price threshold. First to mind are diesel pickup trucks, which frequently exceed such threshold (especially with certain improvements and additions). However, these vehicles are often acquired for work-related purposes in industries such as construction and agriculture.

Calculating and paying Luxury Tax

The Luxury Tax is calculated based on the **lesser of** (a) 20 per cent of the value above the "price threshold" – being $100,000 for subject vehicles and aircraft and $250,000 for subject vessels – and (b) 10 per cent of the "taxable amount" of the subject item (essentially retail price plus fees like transportation and administrative charges and customs duties). For example, a new Porsche 911 with an approximate retail value of $150,000 will attract $10,000 in Luxury Tax, as 20 per cent of the $50,000 exceeding the "price threshold" is $10,000, which is less than 10 per cent of the $150,000 taxable amount.

Special rules also apply to the importation of Luxury Items and for special circumstances like sales to non-arm's length parties, and sales to non-arm's length leasing entities.

Notably, the **vendor** or **importer** is usually liable to pay the Luxury Tax, although one can assume that this cost will be passed on and invoiced to the final customer. That said, although the Luxury Tax may look similar to a sales tax charge, the implications to the vendor are conceptually very different. The vendor generally collects sales taxes as agent of the tax authority, and often can charge and collect that tax after the fact if it fails to do so when required. For Luxury Tax, there is no such mechanism as the vendor is actually liable for paying the tax instead of collecting it from a third party. Therefore, the vendor is responsible for accounting for the Luxury Tax when pricing its products, and failing to do so becomes a sunk cost for the vendor.

One exception to the vendor liability rules is for Luxury Tax on improvements. Generally the owner of the Luxury Item must self-report and pay the Luxury Tax on improvements to Luxury Items the owner has purchased.

Compliance matters

Most affected businesses will have to register and file quarterly returns (with the initial reporting period of Sept. 1, 2022 through Dec. 31, 2022).

Vendors with Luxury Tax compliance obligations are generally required to be registered as of September 2022. Such vendors may include manufacturers, wholesalers, retailers and importers of Luxury Items. To register, vendors must file Form L500 – *Luxury Tax Registration Application* – which may be completed online or sent to the CRA via mail service.

Notably, vendors and importers generally must apply for a "tax certificate" when the Luxury Tax on a subject aircraft or vessel is triggered (the Tax-Paid Certificate). This can be done through a registered vendor's quarterly Luxury Tax Return or by submitting Form L501 – *Tax Certificate Application*. The Tax-Paid Certificate confirms that the Luxury Tax has been paid on the subject aircraft or vessel, ensuring it is never triggered again at a future date.

Non-compliance can result in significant penalties. For example, an importer of subject aircraft or vessels faces a penalty equal to 50 per cent of the Luxury Tax otherwise payable if the importer fails to apply to register for a Luxury Tax account before importation.

Takeaways

As it stands, the Luxury Tax will have two definitive outcomes:

- purchasers seeking to acquire “luxury” vehicles, aircrafts or boats will be faced with paying an additional cost to do so, even if such items are used for non-luxury purposes; and
- vendors selling such items will be faced with the administrative burden of registering for the Luxury Tax and complying for the ongoing reporting requirements outlined in the Act.

If you have further questions about the Luxury Tax, reach out to your BLG lawyer, the authors of this piece, or a member of BLG’s Tax Group.

By

Braek Urquhart, Tanner Shapka

Expertise

Tax, Commodity Tax

BLG | Canada’s Law Firm

As the largest, truly full-service Canadian law firm, Borden Ladner Gervais LLP (BLG) delivers practical legal advice for domestic and international clients across more practices and industries than any Canadian firm. With over 800 lawyers, intellectual property agents and other professionals, BLG serves the legal needs of businesses and institutions across Canada and beyond – from M&A and capital markets, to disputes, financing, and trademark & patent registration.

blg.com

BLG Offices

Calgary
Centennial Place, East Tower
520 3rd Avenue S.W.
Calgary, AB, Canada
T2P 0R3

T 403.232.9500
F 403.266.1395

Ottawa
World Exchange Plaza
100 Queen Street
Ottawa, ON, Canada
K1P 1J9

T 613.237.5160
F 613.230.8842

Vancouver
1200 Waterfront Centre
200 Burrard Street
Vancouver, BC, Canada
V7X 1T2

T 604.687.5744
F 604.687.1415

Montréal
1000 De La Gauchetière Street West
Suite 900
Montréal, QC, Canada
H3B 5H4

T 514.954.2555
F 514.879.9015

Toronto
Bay Adelaide Centre, East Tower
22 Adelaide Street West
Toronto, ON, Canada
M5H 4E3

T 416.367.6000
F 416.367.6749

The information contained herein is of a general nature and is not intended to constitute legal advice, a complete statement of the law, or an opinion on any subject. No one should act upon it or refrain from acting without a thorough examination of the law after the facts of a specific

situation are considered. You are urged to consult your legal adviser in cases of specific questions or concerns. BLG does not warrant or guarantee the accuracy, currency or completeness of this publication. No part of this publication may be reproduced without prior written permission of Borden Ladner Gervais LLP. If this publication was sent to you by BLG and you do not wish to receive further publications from BLG, you may ask to remove your contact information from our mailing lists by emailing unsubscribe@blg.com or manage your subscription preferences at blg.com/MyPreferences. If you feel you have received this message in error please contact communications@blg.com. BLG's privacy policy for publications may be found at blg.com/en/privacy.

© 2026 Borden Ladner Gervais LLP. Borden Ladner Gervais LLP is an Ontario Limited Liability Partnership.