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September 21, 2021

Sent via email to: fin.luxury-luxe.fin@fin.gc.ca

RE: COPA's letter to Minister Freeland and Consultation on the Select Luxury Goods Tax

In Canadian Owners Pilot Association (COPA)'s letter dated 22 April, 2021 we asked Minister Freeland to consider the impact of this proposed Tax on recreational aircraft owners. We also asked that the Government make adjustments to the then proposed Luxury Tax on Select Goods. Specifically, we listed several activities such as flight instruction schools and aerial spraying (crop dusting) that should be exempted from the imposition of this Tax on new aircraft purchases.

The Consultation document provided does list these and several more activities that will enable aircraft purchased for these purposes to be exempted. COPA commends the Government for implementing the full and comprehensive list of exempted activities. Unfortunately, the recently published consultation document provides details on the planned implementation on January 01, 2022, reveals implementation details that present significant new challenges for our members, such as the Canada Revenue Agency (CRA)-managed Tax Certificate. More importantly, the fact that the \$100,000 baseline for new aircraft purchases remains at an unrealistically low value is another issue that we wish to address and make recommendations to raise this to a more reasonable level.

COPA's earlier submission underscored the rising costs faced by our recreational pilots who are flying older aircraft. The current \$100,000 baseline is a major deterrent to those who want to convert to a newer aircraft with lower operating and maintenance costs. The baseline value is unrealistic primarily because that are no newly manufactured aircraft light or small aircraft available anywhere near this price. A typical, entry-level light aircraft such as a Cessna 172 model sells for roughly \$600,000.00 Canadian. Aircraft with lower operating costs and a much smaller carbon footprint that could be imported to Canada from European manufacturers 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 general aviation operators for prices between \$600,000 to \$750,000. COPA has received several expressions of interest from our members but the proposed luxury tax creates a virtual prohibition for those who cannot avoid paying this surtax on ownership. These "zero emission" aircraft are modern and safe to use in Canadian Airspace.

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With a baseline of either \$600,000 or higher, the Luxury Tax surcharge on these green or lower-emission aircraft would be much lower and reduce the barrier facing individual or purchasing partners. With the reduced surcharge many older aircraft with relatively large carbon footprints that burn leaded fuels could be retired from Canada's fleet of private aircraft. 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 such as Diamond Aircraft that is based in London, Ontario. These newer and "greener" aircraft would enhance safety and reduce emissions and costs. COPA therefore recommends developing a "Fly Green" program for lower emission aircraft that use lead-free fuels and for electric aircraft and raising the Luxury Tax baseline to no less than \$600,000 for all new aircraft purchases.

What is also concerning for COPA is the fact that the Luxury Tax on new aircraft will likely not be a one-time event. Aircraft that were taxed upon importation or purchase can be re-taxed if the 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 for as opposed to owner discretion. 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 additional layer will undoubtedly come with additional 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. It should be realized that since 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 are not on the exempted list 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." This significant problem would be eliminated if depreciated values were used instead to assess resale values based on simple wear and tear metrics. COPA recommends swapping fair market values for depreciated aircraft values when transfers of ownership occur to limit the long-range impact of the Luxury Tax.

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To reduce what may very well become a virtually unmanageable challenge to new aircraft ownership, COPA wishes to propose changes to the not yet fully developed CRA system of managing tax payments and tracking taxable status over the potential fifty (+) year life of a typical GA aircraft.

The Consultation document provided conflicting information regarding the description of what would be considered a “new aircraft” when the tax is implemented in 2022. At one point the document suggested that “new” would be defined as being “manufactured after 2018” and therefore this “new” would be from January 1, 2019 and forward. Later on, in the fifty-four page document on page 52 there is contradicting information that “new” would be applied to aircraft manufactured after 2021, and therefore be from January 1, 2022 and forward. Prior to implementing this Tax, the plurality of dates needs to be eliminated. We recommend that the January 01, 2022 date be used for the manufacturing start date.

COPA is recommending that the baseline be raised from \$100K to either \$500K or \$600K for the initial purchase. COPA also believes that this new Tax will unnecessarily complicate the federal aircraft registration process that is managed by TC. New owners will be obliged to acquire a Tax-paid (In/Out) Certificate for each aircraft from CRA that will necessarily identify not only the aircraft but also the reasons for its tax status; due to either initial price or primary activity, or possibly both. This CRA-driven document will have equivalent status to the certificates of airworthiness and registration. The process of acquiring and maintaining a Tax Certificate could be greatly simplified if the Luxury Tax was a one-time only process. In this case tax exempt aircraft would be registered as “tax out” and never be taxed even if their principle activity changed. Aircraft that were taxed on initial purchase would be registered as “tax in” and would retain that as a historical reference. CRA tracking would only require a one-time entry in the federal registry without the annual and transfer of ownership tracking costs and administration.

In conclusion, COPA commends the Government for the comprehensive list of activities that exclude aircraft from being assessed under the Luxury Tax on Select Goods. COPA recommends raising the baseline value to enable recreational aircraft owners to reduce operating costs, carbon footprints and emissions. Enabling more technologically advanced aircraft will also have a positive effect on flight safety in Canadian skies. 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 in 2022.

Regards,

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