

Recommendations on the Canadian Luxury Tax on Vehicles

Canada and Germany share a long-standing and forward-looking partnership in the automotive sector, built on strong trade relations, technological excellence, and a shared commitment to sustainable mobility. The EU-Canada Comprehensive Economic and Trade Agreement (CETA) exemplifies the broad partnership between Canada, the EU, and Germany. The strong bond is gaining even more momentum thanks to the "[Joint Declaration of Intent](#) on Dialogue and Cooperation regarding the Automotive and Mobility Sectors", which was recently signed by the governments of Canada and Germany. The German Association of the Automotive Industry (VDA) expressly supports the goal of forging a closer partnership with the Canadian government and Canadian partners.

German automotive companies have maintained a significant presence in the Canadian market for decades, contributing to consumer choice, innovation, and the transition to low- and zero-emission transport. At the same time, Canada is an important partner for Germany in areas such as critical raw materials, research cooperation, and resilient supply chains. This close economic integration reflects our common ambition to advance climate goals while strengthening industrial competitiveness.

Against this backdrop, policy frameworks should enable – not impede – investment, innovation, and open markets. In this spirit, the VDA calls for the abolition of Canada's luxury tax on vehicles, which risks distorting market dynamics, limiting consumer access to advanced technologies, and weakening the strong transatlantic automotive partnership between our two countries.

1. Key priorities of the VDA

The VDA, in line with Global Automakers of Canada (GAC), calls on the Canadian government to abolish the luxury tax for the following reasons:

- **Luxury tax puts EU-made vehicles at a competitive disadvantage:** The EU Commission officially categorizes the luxury tax as a [trade barrier](#). According to a recent [study](#) commissioned by DG Trade from June 2025 Canada's luxury tax disproportionately affects EU-made vehicles compared to domestically produced ones. From 2019 to 2022, 40% of EU vehicle imports would have been above the luxury tax threshold (CAD 7.3 bn of CAD 18.1 bn), compared to only 5% of Canadian-produced vehicles (CAD 3.8 bn of CAD 71 bn).
- **Luxury tax has prosperity-reducing effects for Canada and the tax revenue of the Canadian government:** A Government of Canada review in March 2023 estimated that the luxury tax could reduce total Canadian GDP by between CAD 58-125 mn annually. Additionally, administrative costs of the luxury tax totaled CAD 19 mn (Sep. 2022-Sep 2023) further reduced the effective revenue ([National Post](#)). In addition to the bureaucratic costs incurred by the government, there are also those incurred by companies, which in turn have fewer resources to spend on innovation and investment in Canada.
- **Luxury tax runs counter the ramp up of electromobility in Canada:** Since private cars of all types of propulsion are affected by the luxury tax, the ramp-up of electric mobility in Canada is being slowed down. Many European car manufacturers offer Zero Emission Vehicles (ZEV) that are impacted by the luxury tax. In a [report](#) commissioned by the EU Commission it is stated that the Luxury Tax represents an "unintended disadvantage for electric vehicles".

- **Luxury Tax disincentives innovation and technological advancement in the automotive sector:** Premium vehicles serve as both testing grounds and financial engines for innovations such as advanced safety systems, automated driving functions, battery technology, and sustainability improvements, with significant upfront R&D costs supported by premium sales – particularly by German manufacturers. By discouraging the purchase of these vehicles, the Luxury Tax undercuts the innovation pipeline that ultimately benefits Canadian consumers of all kinds of vehicles and the broader automotive ecosystem.

2. Legislative background

In 2022, Canada introduced the *Select Luxury Items Tax Act*, a luxury tax on the sale or import of certain vehicles, aircraft and vessels. The luxury tax applies to private vehicles that are priced above a CAD 100,000 (~ EUR 61,300) threshold. The tax calculation is based on either 10% of the taxable amount or 20% of the amount by which the taxable amount exceeds the price threshold – whichever is less.

Furthermore, the luxury tax is limited to vehicles with a gross vehicle weight less than 3,856 kg – examples of subject vehicles include sedans, coupes, SUVs and light-duty pickup trucks ([Government of Canada](#)).

In November 2025, the Canadian government rolled back the application of the luxury tax on aircraft and vessels in order to “provide relief” to the aviation and boating industries and save on administrative costs. The tax on vehicles, however, remained unchanged ([Autonews](#)).

3. German automotive industry’s engagement in Canada

- German automaker subsidiaries support over **15,000 Canadian jobs**, with the major investment in the St. Thomas battery factory adding thousands of new high-qualified jobs for Ontario and Canada.
- German automotive companies are investing substantially in the **ramp up of the Canadian charging infrastructure** and invested more than CAD 2.6 billion in sales facilities across Canada.
- German OEMs have a **market share of approx. 10.2%** in the Canadian passenger car market. The German **market share for electric cars was as high as 12%** in 2025.
- In 2025, the **overall value of German automotive exports to Canada decreased** to EUR 3.1 bn (-8.2% YtY).
 - German **export value of motor vehicles and engines to Canada decreased** to around EUR 2.8 bn in 2025 (-9.1% YtY).
 - German **export value of parts, accessories and engine parts to Canada dropped** to around EUR 297 mn in 2025 (-3.2% YtY).
 - German **trade surplus with Canada in automotive goods dropped** totaling around EUR 3 bn in 2025 (-6.6% YtY).

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Canada

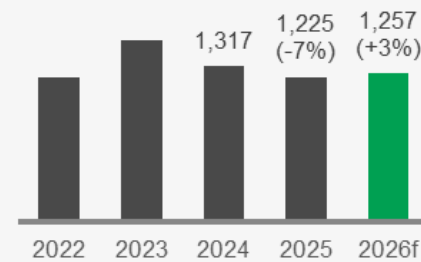
I Economic situation

- **GDP-Forecast 2026:** +1.2% (2027: +1.9%)
- **Forecast Household Consumption 2026:** +1.4% (2027: +1.8%)
- **Forecast Inflation 2026:** +2.2% (2027: +2.1%)
- **Forecast Machinery & Equipment 2026:** -1.2% (2027: +3.5%)

The Canadian economy stalled towards the end of 2025 after declining at the beginning of the fourth quarter. However, there is still a lot of uncertainty in the relation with the US, the most important trading partner of the Canada.

III Passenger Car Production

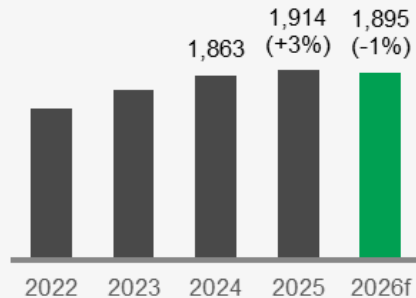
Thousands



- **Jan.-Dec. 2025:** 1.23 Mio. units (-7%)

II Light Vehicle Sales

Thousands



- **Jan.-Dec. 2025:** 1.91 Mio. units (+3%)
- **Market Share German OEMs**
Jan.-Dec. 2025: 10.2%
(2024: 10.5%)

IV Situation in the Automotive Industry

- In 2025, the trade tensions between Canada and the US have left a clear impact on sales and production of light vehicles. Consumers pulled forward sales expecting higher vehicle prices in the future.
- Canada imported automotive goods worth EUR 3.1 bn from Germany in 2025. Meanwhile automotive exports to Germany amounted to EUR 68 mn.
- The car density in Canada is 590 cars/1,000 inhabitants (world: 175/1,000)

f = forecast

Sources: Omdia, Consensus Forecasts, Federal Statistical Office Germany, GTAI