

Economics: A Christian Worldview. Article – “The Luxury Tax Myth”

TEACHER INSTRUCTIONS/KEY

Purpose

This article discusses the unintended consequences of a 1990 tax on luxury items, including yachts.

Prep

Print this instruction page and Page 2 for each student. (Page 2 is the article in the book section titled “CLAIM: ‘We Should Stick It to the Rich!’”)

Time

15 minutes

Instructions

Have students read the article and answer the questions together in pairs/groups, then as a class.

Key

The key is in the Teacher’s Guide.

The Luxury Tax Myth

February 1, 2022

By Bill Yeargin

Luxury taxes, on items such as boats that politicians see as a “luxury,” are traps that don’t impact the rich, but have a huge negative impact on people who can least afford it. They are the quintessential example of unintended consequences; history has demonstrated this unequivocally.

Politicians, many of whom I believe are well-intentioned, see luxury taxes as an easy way to generate revenue. These taxes are usually promoted to fix what politicians believe are fiscal or social imbalances. That would make sense if we couldn’t learn from our past. History has taught us that luxury taxes have dismally failed in country after country and eventually are repealed.

New Zealand, Italy, Norway, Turkey, and Spain have all tried to implement luxury taxes on boats, but ended up repealing them. They realized that the luxury tax had a serious negative economic impact on their country while actually decreasing government revenue. However, the luxury tax lesson that was clearest to me was right here where I live, in the United States.

In 1990 a 10 percent luxury tax was applied to boats in the U.S., and the results were disastrous. Over 25,000 boating industry jobs were lost, and a tax that was supposed to generate millions of additional government revenue actually cost the government revenue. Fortunately, Congress was quick to acknowledge the damage they were causing, and the tax was repealed. Unfortunately, before the repeal was enacted it severely damaged many American families.

The reason luxury taxes don’t work is that they change the behavior of those who would normally be buying boats. Boat buyers don’t want to pay the tax, so they don’t make a boat purchase. This hurts working folks in the factories and dealerships who count on boat sales to support their families. This isn’t just theory; whenever a country enacts a luxury tax it happens. **Every. Single. Time.**

The negative impact of luxury taxes is so clear that most would think there is no chance we will need to relearn those hard lessons again. But unfortunately, we do. The Canadian government is moving quickly toward enacting a luxury tax on boats sold in their country. For the sake of Canadian working families, I hope they don’t.

The global market is big and worldwide demand for boats remains strong so, even though the Canadian market is big and important, if the luxury tax is enacted, U.S. manufacturers will likely find other places to sell their boats. Or they will sell the boats to Canadians who will buy and keep them outside of Canada.

The negative impact of this luxury tax is likely to fall on all the dealerships and other small businesses that will be hurt by the lack of boat sales. These are almost entirely family run businesses who not only provide people great jobs, but also invest in their communities.

Dr. Jack Mintz from the University of Calgary has researched the economic impact of the proposed Canadian luxury tax and predicted that thousands of Canadian jobs could be lost. If enacted, the proposed tax will likely be repealed a couple of years after the politicians in Canada learn the lessons already learned by other countries. However, in the meantime, many families will be unnecessarily harmed.

Sometimes we need to learn lessons the hard way. This does not need to be one of those times.

Bill Yeargin is President and CEO of Correct Craft and author of the best-selling book Education of a CEO.

(See article here: <https://boatingindustry.com/blogs/2022/02/01/the-luxury-tax-myth>.)

Questions for Review:

1. Sum up what happened after the 1990 “luxury tax” on boats was added.
2. Why does Yeargin say that luxury taxes, like the ones on boats, are perfect examples of “unintended consequences”?
3. In what way did the boat buyers act after that tax was enacted—a reaction that Congress didn’t predict?
4. Why do you suppose that obvious lessons, like the one about luxury taxes, are rarely learned by legislators?