

Current Status: Implemented for January 1, 2024, with retroactive effect to taxation years beginning January 1, 2022. Explanatory notes were published by The Honourable Chrystia Freeland, P.C., M.P. Deputy Prime Minister and Minister of Finance

Summary

Certain large Canadian and non-Canadian businesses will need to prepare for the imposition of a 3% Canadian Digital Services Tax (DST) on their “in-scope” digital services revenues earned from customers located in Canada.

Sourcing to Canada

The DST would only apply to in-scope revenue associated with users in Canada. Revenue sourcing principles would vary according to the nature of the revenue.

The following outlines the in-scope revenue.

Online Marketplace Services Revenue

1. Revenue earned from facilitating a service delivered in physical form (like transportation or accommodations) and if the service is performed in Canada, the revenue from facilitating that specific transaction would be entirely sourced to Canada.
2. Revenue associated with facilitating a particular transaction between users, other than a service delivered in physical form, sourcing to Canada would depend on where those users are located. If both users are located in Canada, all the revenue associated with facilitating that transaction would be sourced to Canada. If only one user is located in Canada, 50 percent of the revenue associated with facilitating that transaction would be sourced to Canada.
3. Online marketplace services revenue that can't be traced to a specific transaction, would be sourced to Canada based on a formulaic approach that calculates the percentage of the marketplace's transaction participants that are located in Canada.

Online Advertising Services Revenue

1. Revenue that can be traced to the display of an advertisement to a specific user who is located in Canada would be entirely sourced to Canada.
2. If revenue cannot be traced to specific users, the revenue would be sourced to Canada based on a formulaic approach that calculates the percentage of users to which the advertisement was displayed that are located in Canada.

3. **Social Media Services Revenue** would be sourced solely through a formulaic approach that calculates the percentage of the platform's users that are located in Canada.

User Data Revenue is sourced based on:

1. Revenue that can be traced to the user data of a single user who is located in Canada, would be entirely sourced to Canada.
2. Revenue relating to a set of data that was collected from multiple users, would be sourced to Canada based on the percentage of those users that are located in Canada.

Implications for Digital Advertising Industry

- Cuts into margins across multiple levels
- Increase costs of advertising online for brands
- Impact on Advertising vs. Subscription
- For orgs. that deal with Data AND Advertising – are they assessed separately?
- How does this impact the growth of investment in the Canadian marketplace – will this chill global investment into the Canadian market?
- Places the focus on assessing the net value of doing business in the Canadian marketplace once impact of cost trickles to consumer.

IAB Canada Position/Activity

IAB Canada has had some discussions with members to assess the impact on our industry. Most organizations report serious concerns regarding the retroactive nature of the requirement which requires taxing of any applicable activity back to January 2022.

Many members expressed concern over unilateral action in Canada stating that an international OECD structure would be appropriate.

Next Steps

Continued stakeholder interviews to determine impact on the sector. Some IAB Canada members will be impacted more significantly than others depending on the types of digital transactions being delivered to Canadians. IAB Canada may prepare an impact report in 2024 to present to industry and government.