

Current Status: On July 3rd, 2024, an [Order in Council](#) (the OIC) was posted on the Canadian government's website fixing the day Canada's *Digital Services Tax Act* (DSTA) comes into force as 28 June 2024. The OIC was issued by the Governor General in Council, based on the recommendation of the 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. On July 3rd, the federal government announced a coming-into-force (CIF) date of June 28th, 2024.

Registration Requirements

Businesses must apply to register by January 31st of 2025 under the Digital Services Tax Act (DSTA) if the following criteria are met:

1. Their global consolidated revenues are at least 750m euros.
2. They earn Canadian digital services revenue from providing online marketplace services, online advertising, social media services and monetizing of user data more than CA\$20m.

*If their “in-scope” revenue is at least \$10m, lower than the \$20m required for taxation, they must still register.

Sourcing to Canada

The DST would only apply to in-scope revenue associated with businesses both domestic and international that earn digital services revenue 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. If neither user is in Canada, no revenue is 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.

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
- Increases costs of advertising online for brands
- Impact on Advertising vs. Subscription eroding inventory levels
- 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
- Cost impact to consumer

IAB Canada Position/Activity

IAB Canada has had some discussions with members to assess the impact on our industry. Many members had expressed concern over unilateral action in Canada stating that an international OECD structure would be appropriate. This seems to have fallen in line since our last update. Currently our sector's major concern is regarding

the backlash this may cause in the US particularly during the election cycle. Moreover, the steady increase in consumer price index over the past few years (post-pandemic) raise concerns over the impact to consumers.

Next Steps

Stakeholders impacted by the DST are encouraged to speak with internal counsel, accountants and CFOs to determine whether the organization must register ahead of the deadline. 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 2025 to present to industry and government.

Further Reading

[Digital Services Tax Act \(DSTA\)](#)

[EY – Canada sets entry-into-force date for Digital Services Tax Act](#)