



Tuesday August 27th, 2024

Office of the Prime Minister
House of Commons
Ottawa, ON K1A 0A6

Sent By Email

Dear Prime Minister Trudeau,

Re: Digital Services Tax – Request for Consideration and Action

I am writing on behalf of the Interactive Advertising Bureau of Canada (IAB Canada), the only not-for-profit trade association exclusively dedicated to the development and promotion of the \$18B and rapidly growing digital marketing and advertising sector in our country. Our members represent close to 90% of this significant contribution to the Canadian GDP. Our organization is deeply committed to fostering innovation and growth in Canada's digital economy. The Digital Services Tax is yet another instance of over taxation along with an egregious retroactivity policy with the potential to greatly harm an industry on which many small-to-medium sized enterprises (SMEs) rely to succeed. As such we believe it is important to address several key concerns regarding the recently imposed Digital Services Tax in Canada:

1. **DST directly targets our industry:** Advertising requires a complex network of technologies and services to help drive effectiveness. The DST is discriminatory and unfair in that it targets the vital infrastructure across the entire value chain of the digital advertising industry. Agencies, marketers and small businesses are now left with significant increased costs related to accessing supply as well as operational changes for compliance across multiple layers of their supply chains. These additional costs add another layer of pressure that will stall growth and lead to a further decline in the ability of businesses in Canada to operate successfully. This goes directly against government mandates and promises to create an environment that fosters the growth and wellbeing of Canadian business.
2. **DST Disproportionately Affects SMEs:** The DST will have its most pronounced effect on SMEs. Small-to-medium sized enterprises, which represent 98.1% of our economy, rely heavily on high-reach platforms that have become ensnared by the DST to access affordable and effective advertising in Canada. In a response to this unfairly targeted tax, major platforms have decided to pass through the cost of the DST to value chain participants and consequently, onto the consumer. This represents yet another additional

cost for these businesses to advertise and promote themselves and applies pressure to raise costs to consumers while trying to compete in a global digital economy. Exacerbating this rise in costs, is the damning retroactivity of this tax that is well within your government's ability to repeal if it wishes to avoid driving further retaliatory pass-through costs to SMEs, the engine of Canada's economy. Businesses should not be forced to pay taxation retroactively for years already filed, and this is not something on which the government should be setting a precedent for future legislation. In effect, businesses are being punished for operating in years past in an environment where they could not budget for a tax that wasn't even in place at the time.

3. **Cost of Compliance and Fallout:** The cost of compliance that this represents to businesses in Canada will be astronomical as they scramble to re-work their billing infrastructure. Our sector has already seen a major fallout from provincial privacy legislation and the isolating policies taken by the federal government which has greatly increased both the cost and effectiveness of digital advertising. Why add another layer of this from the federal government? Canadian policy in this area tends to be far more rigid than most international standards which can lead to a fragmented regulatory environment that complicates cross-border operations and compliance.

In addition, The DST will all but guarantee retaliatory tariffs from the United States as the CUSMA renegotiation looms in 2026. There is already precedence in France where a similar tax was implemented which the U.S. Trade Representative ruled as "discriminatory" and actionable under Section 301 of the Trade Act of 1974. In addition to the added costs already mentioned, businesses will now have to deal with the fallout from retaliatory tariffs taken by our largest trading partner through no fault of their own.

We strongly urge policymakers to take note of the short- and long-term consequences of this tax and to **at a minimum, repeal the retroactivity of the DST which will have dramatic negative impact on our sector.**

As is currently formed, the DST will crush a sector of the Canadian economy that represents a major beacon of growth.

On behalf of IAB Canada and the digital advertising industry at large, I would like to thank you for your careful consideration and would welcome further dialogue on the points outlined above. We are committed to a level-playing field for Canadian Digital Media and are always available for consultation.

Sincerely,



Sonia Carreno
President, IAB Canada

About the Interactive Advertising Bureau of Canada

IAB Canada represents over 250 of Canada's most well-known and respected stakeholders in the

digital advertising and marketing sector, including advertisers, advertising agencies, media companies, digital media publishers and platforms, social media platforms, ad tech providers and platforms, data companies, mobile and video game marketers and developers, measurement companies, service providers, educational institutions, and government associations operating within the space. Our members include numerous small and medium sized enterprises.