



March 13, 2023

The Honourable Chrystia Freeland, P.C., M.P.  
Deputy Prime Minister and Minister of Finance  
House of Commons  
Ottawa, ON K1A 0A6

[sent via e-mail to [Chrystia.Freeland@fin.gc.ca](mailto:Chrystia.Freeland@fin.gc.ca)]

RE: Digital Services Tax

Dear Deputy Prime Minister:

Your speech at the Brookings Institution in Washington offered a prescient assessment of the economic and political headwinds facing the world's democracies. As you noted, free societies must deepen our cooperation to create resilient and reliable trade networks. Yet as we prepare to welcome President Joe Biden to Canada, our membership is alarmed that Canada will press ahead with a unilateral Digital Services Tax (DST) which will hurt Canadian businesses by directly undermining the US-Canada trading relationship and our commitments to the OECD.

Indeed, the G20/OECD process to develop an Inclusive Framework on Base Erosion and Profit Shifting cemented Washington's opposition to unilateral tax targeted at non-resident multinational corporations. This should not be taken lightly. Successive US Administrations have criticized the DST, and the Office of the United States Trade Representative invoked the possibility of retaliatory action in response to Canada's corresponding Ways and Means Motion. The Canadian Chamber therefore urges the government to consider the economic consequences of DST-induced retaliatory tariffs on Canadian goods and services.

Reaching a consensus-based, two-pillar solution with the G20/OECD to address the tax challenges of an increasingly digitizing global economy was no small feat. Notably, the plan calls for the removal and standstill of all DST-like measures:

*No newly enacted Digital Services Taxes or other relevant similar measures will be imposed on any company from 8 October 2021 and until the earlier of 31 December 2023 or the coming into force of the Multilateral Convention.*

Despite explicitly agreeing to this, the government's Digital Services Tax Act provides that "the DST would be payable as of the year that it comes into force in respect of revenues earned as of January 1, 2022" should the OECD Pillar 1 framework not be implemented. Imposing a retroactive tax not only violates the spirit of the G20/OECD agreement, but also sets a worrisome precedent for Canadian businesses.

Canadian businesses would also need to grapple with new administrative burdens that this tax would impose. To start, companies would need time to design and establish new compliance systems to track transactions that would fall under the scope of the tax. Administering the tax would also be complicated by uncertainties in the legislation where definitions and revenue



allocations are unclear. Even with administrative guidance, the DST's unprecedented retroactive application will force businesses to set aside funds that could otherwise be invested productively. This amounts to applying the tax now, which defies the spirit of the two-pillar agreement.

Adding to the complexity for Canadian businesses is that the DST would affect a wider swath of resident businesses than intended. For instance, some businesses with digital-based loyalty programs may fall under the scope of a DST. Not only might a Canadian DST reduce the incentive of resident businesses to invest in digital models, but a Canadian DST could also set up DST liabilities for resident businesses operating in other jurisdictions.

Digital commerce is a key driver of global economic growth. Yet Canada's unilateral, discriminatory DST only adds to the headwinds facing Canadian businesses. As Canada prepares to welcome our closest ally, the Canadian Chamber urges the government to standstill on the Digital Services Tax Act, drop its retroactive application, and fully support the implementation of the G20/OECD two-pillar plan that has been agreed to by over 130 countries.

Sincerely,

Alex Gray  
Senior Director, Fiscal and Financial Services Policy  
Canadian Chamber of Commerce  
[agray@chamber.ca](mailto:agray@chamber.ca)

Cc: The Right Honourable Justin Trudeau, P.C., M.P.  
Prime Minister of Canada

Katie Telford  
Chief of Staff to the Prime Minister of Canada

John Brodhead  
Director of Policy, Office of the Prime Minister of Canada

The Honourable François-Philippe Champagne, P.C., M.P.  
Minister of Innovation, Science and Industry

The Honourable Mélanie Joly, P.C., M.P.  
Minister of Foreign Affairs

The Honourable Mary Ng, P.C., M.P.  
Minister of International Trade, Export Promotion, Small Business and Economic Development