Intelligence MEMOS

From: Rosalie Wyonch

To: Bill Morneau, Minister of Finance

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Re: It's Time for the Taxman to Join the Digital Age

The Internet is changing how Canadians access content, order taxis, find accommodations and shop for goods and services. It has also made it possible to purchase digital goods and services over the Internet directly from suppliers located outside Canada just as easily as if the vendors were domestic.

While this is useful for consumers, it complicates tax collection and raises competitive pressures for both domestic and foreign businesses. In particular, providers of digital products and services, ranging from e-books and online games to streaming services such as Netflix and Spotify, are not obligated to collect and remit sales tax if they are not "carrying on business" in Canada. Instead, the consumers of the service are responsible for determining and paying the associated GST/HST. This creates two major problems.

1. Among general consumers, compliance is impracticable and thus virtually nonexistent. This leaves significant amounts of tax revenue uncollected.
2. Since the sales tax is not being paid, foreign suppliers have a competitive advantage over domestic companies that are required to collect and remit the GST/HST on behalf of consumers. Sales taxes collected by domestic suppliers add 5 percent to 15 percent to the price of their products. Therefore, foreign vendors can extract more revenue, while charging the same final price as a domestic company, by not charging GST/HST.

To address both problems, Ottawa should amend the *Excise Tax Act* to require foreign sellers register, collect and remit tax on the sales of digital goods and services in the jurisdiction where the final consumer is located, in compliance with International VAT/GST Guidelines. With the rise of the digital economy, businesses can be fragmented across international borders in ways that can make the physical location of goods, offices, staff, bank accounts or production have very little to do with where goods and services are consumed. The main goal should be to level the playing field for domestic and foreign providers of digital products and services in Canada.

If tax policy were changed to level the playing field between foreign and domestic supplies of digital goods and services, some of the most prominent ecommerce players – Netflix, Stubhub, Amazon, Spotify, Uber and Airbnb – would potentially remit about $100 million of GST/HST annually. In 2015, a laughable total of only 410 returns for "imported taxable supplies" were filed by consumers and other non-registered entities, bringing in $3.2 million in revenue.

Countries around the world face the same competitiveness and enforcement challenges that are experienced in Canada. Australia, Norway, the EU, Japan and other countries have already implemented tax policy changes to remove the disadvantage to businesses within their own borders. And some companies have exhibited a willingness to cooperate. Airbnb, for example, collects VAT on its service fees in the EU, Switzerland, Norway, Iceland, South Africa and Albania. Uber has complied with the requirement that drivers in Montreal provide a GST and QST number and rebates drivers for the sales tax paid on the business expense of using the platform.

Canada can learn from policies employed in other countries and implement changes that work with our existing excise tax regulations. Canada could, for example, develop a simplified online registration platform for non-resident businesses, similar to Norway; use Japan's definition of "digital services," which does not include software or telecommunications carrier services; and, like Europe, Australia and South Korea, hold marketplace operators (such as Amazon, eBbay and Google Play) responsible for collecting GST/HST on all transactions on the marketplace.

The current VAT system in relation to imported intangible goods and services has not been effective and leaves significant amounts of revenue uncollected, to the benefit of foreign businesses. It's long past time for the taxman to join the 21st century.

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