

# Intelligence MEMOS



From: Rosalie Wyonch  
To: The Honourable Bill Morneau, Minister of Finance  
Date: December 12, 2018  
Re: **COMPETITIVE DIGITAL TAXATION FOR FEDERAL BUDGET 2019**

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*Federal budgets are an annual rite of spring in Ottawa, as is the deluge of advice to the Department of Finance. But budget-making is a yearlong process, and the work is now in progress. Accordingly, the C.D. Howe Institute is presenting a series of Intelligence Memos in the next few weeks, outlining recommendations that we hope will help inform the policy decisions that are being made now.*

The Internet is revolutionizing how people access entertainment, order taxis, find accommodations, shop and meet each other. In many cases, consumers can buy these services from a supplier located outside Canada as easily as if the company were domestic. This development raises concerns about tax revenue and competition for Canadian suppliers of digital services.

Foreign providers of digital products and services do not have to collect and remit sales tax if they are not “carrying on business” in Canada. This gives them a five to 15 percent price advantage over Canadian providers of similar products, who must charge and remit GST/HST. This imbalance affects a wide range of services, including video streaming, digital books, games and myriad fees for digital platform and network services. If tax policy were changed to level the playing field between foreign and domestic suppliers of digital goods and services, some of the most prominent e-commerce players – Netflix, Stubhub, Amazon, Spotify, Uber and Airbnb – would [potentially remit about \\$100 million of GST/HST annually](#).

To address the competitiveness and revenue challenges presented by the digital economy, the 2019 federal budget should amend the *Excise Tax Act* to reflect [international VAT/GST guidelines](#) regarding the taxation for cross-border services and intangibles. The main focus of the guidelines is neutrality; ideally, businesses in similar situations carrying out similar transactions should be subject to similar levels of taxation, meaning foreign businesses should not be disadvantaged or advantaged compared to domestic businesses. Therefore, all service providers should be obligated to charge GST on sales made to consumers in Canada, no matter where the provider is located. The main goal of the reform is to level the playing field for domestic and foreign providers of digital products and services in Canada by requiring that foreign sellers remit tax on sales in the jurisdiction where the final consumer is located.

A consensus is building [internationally](#) around addressing the issue of value-added taxation of cross-border digital trade. [Multiple countries](#) have amended their own policies, demonstrating that action is possible. Indeed, within Canada, provinces have begun attempting to address the tax revenue and competition issues presented by the digital economy. In Quebec, the 2018 budget created a requirement for foreign suppliers (outside Canada) and Canadian suppliers (outside Québec) of digital goods and services to [register for, collect and remit Quebec Sales Tax \(QST\)](#), starting in 2019. The government of British Columbia has reached an agreement with Airbnb where the company [will collect the 8 percent provincial sales tax](#) and local government and hotel taxes.

Budget 2019 should move Canada in the right direction and level the taxation playing field. Doing so will result in more coherent tax policy and avoid, to some extent, having different rules in different provinces – as is currently happening with the lack of federal leadership on the issue. It has the added benefits of correcting a competitive disparity and increasing government revenues.

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*To send a comment or leave feedback, email us at [blog@cdhowe.org](mailto:blog@cdhowe.org).*

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