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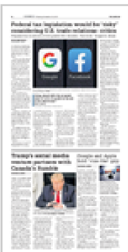

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Federal tax legislation would be 'risky' considering U.S. trade relations: critics

Proposed tax is aimed at web giants like Amazon, Facebook, Google & others

ANJA KARADEGLIJA

POSTMEDIA NEWS

The Liberal government has moved forward with a legislative proposal for its digital services tax, a move that some critics said comes at a risky time in Canada-U.S.trade relations.

"Given what's been going on with the United States right now in various trade issues," going ahead with the proposal now is "a bit of a poke in the eye to the Americans," said Mark Agnew, senior vice-president of policy and government relations at the Canadian Chamber of Commerce.

On Wednesday, the office of the U.S. Trade Representative said in a statement that if Canada adopts the tax, the "USTR would examine all options, including under our trade agreements and domestic statutes."

The government gave notice Tuesday that it will introduce legislation to implement the DST. Its legislative proposal outlines details of the proposed tax, which is aimed at web giants like Amazon, Facebook, Google, as well as companies like Uber and Airbnb.

It applies to companies with global revenue of more than about $1 billion and

The Liberal government intends to proceed with plans to implement a digital services tax tar-geting tech giants. FILE

who earn more than $20 million in Canada from online marketplaces, online advertising, social media or user data. It would bring in $3.4 billion over five years.

The United States has opposed attempts by other countries to put in place similar taxes unilaterally, and previously moved to implement tariffs on six countries that adopted their own digital service taxes.

Instead, the U.S.has backed a process underway at the Organization for Economic Co-operation and Development. The Canadian tax will only kick in if the multilateral tax hasn't come into force by Jan. 1, 2024. "The government hopes that the timely implementation of the new international system will make this unnecessary," it said in a backgrounder.

Wednesday's proposal comes only days after Deputy Prime Minister Chrystia Freeland and International Trade Minister Mary Ng threatened to impose tariffs on the U.S.over an American tax credit for electric vehicles.

If the Canadian tax does go into effect, it will be retroac-tive to Jan. 1, 2022.That means businesses will effectively have to start collecting the tax in a couple of weeks, Agnew said. That's before the government will even have finalized legislation – the deadline for comments on the legislative proposal is Feb. 22.

Agnew said the retroactive aspect of the tax "goes against the spirit" of what was agreed at the OECD, and that could "draw the ire of the Americans."

The U.S.has reached deals with Austria, France, Italy, Spain and the United Kingdom, in which those countries' existing digital service taxes would be rolled back when the OECD tax comes into effect.

"The U.S.has been cutting deals with other countries, and I don't think that there's any reason to believe that Canada's going to get a free pass on this," he said. "Us going ahead with it as a new measure given where the OECD deal is, is not going to go unnoticed in in Washington."

University of Ottawa professor Michael Geist said it's "essential that Canada park the proposal until the global approach is fully developed."

Geist said that to "move alone – particularly at a time when there is already contentious trade issues with the U.S. – is risky and could prove harmful to Canada's position as a global innovation leader."

The reason the U.S.has opposed unilateral digital service taxes on global tech giants is because the major companies affected by such taxes are American. But the Canadian DST would apply to Canadian companies too, though it's not immediately clear which ones would qualify under the revenue thresholds.

One likely contender is Ottawa-based e-commerce platform Shopify. So are large companies that make at least $20 million in Canada from the four types of in-scope activities, such as online advertising or user data, even if that's not their main line of business.

That could include at least some big Canadian telecoms. Bell, for instance, has an online targeted ads division and last year bought data and analytics company Environics Analytics, which Carleton University professor Dwayne Winseck estimates brought in about $50 million in revenue in 2020.

Canada's large telecoms also haven't been shy about fighting back against retroactive fees. They challenged the CRTC's lowered wholesale rates that came with an estimated $350-million retroactive payment, including in the courts.

But Winseck pointed out that the revenue big telecoms earn from activities that are captured in the scope of the new DST pale in comparison to their telecom revenues. Environics Analytics, for example, accounts for about 0.2 per cent of Bell's revenues.

"Is Bell going to go to the wall for that? I don't know," Winseck said.

Bell didn't respond to a request for comment. A Google spokesperson said in an emailed statement that it is "disappointing that the Government of Canada now appears to be unilaterally pursuing a digital tax, which would undermine the multilateral consensus and raise prices for Canadians. We hope it will reconsider."

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