



# Canada's Digital Services Tax Act: Issues Facing Congress

August 1, 2024

In June 2024, the Canadian government enacted [Bill C-59](#), which included a 3% digital services tax (DST)—retroactive to January 1, 2022—on certain revenue of large digital services providers active in, for example, online marketplaces, online advertising, social media platforms, and the sale or licensing of user data. Some Members of Congress have [expressed concerns](#) that Canada's DST discriminates against U.S. firms and have urged the Biden Administration to consider retaliatory trade measures.

The United States is home to several of the world's largest digital services providers (e.g., Meta, Netflix), which are a large and fast-growing segment of the U.S. economy, with [\\$213 billion of revenue](#) and 278,000 workers in 2024. Revenue for social networking sites is expected to [increase by 18%](#) from 2024 to 2025. Digital services providers will have to register with the Canadian Revenue Agency by January 31, 2025, and make their first tax payments by June 30, 2025.

## Background and Scope of the DST

In addition to Canada, [18 other countries](#) have implemented DSTs. DSTs differ from existing corporate income taxes on multinationals. DSTs are taxes on revenue derived from the sale of digital goods and services in the jurisdiction imposing the tax. The existing global tax regime taxes multinationals' profits (revenue adjusted for expenses) in the country in which the income is earned and, in some instances, the country in which a parent firm is headquartered. Proposals for DSTs are increasingly common in part because they allow governments to tax multinationals providing digital services even if the firm does not generate income through the ownership of assets in their jurisdiction.

In October 2021, members of the Organization for Economic Co-operation and Development (OECD)/Group of 20 (G20) Inclusive Framework, including the United States and Canada, agreed on a plan to update the global tax system to address [profit shifting](#) and develop an international digital tax framework. In July 2023, 138 out of 145 framework members agreed to hold off on imposing DSTs until at least 2025 to allow for additional framework negotiations. Canada was an exception, stating that it would not support a DST moratorium without a "[firm and binding](#)" implementation timeline for the framework.

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Canada's DST [entered into force](#) on June 28, 2024, and applies to foreign and Canadian digital services providers that earn (1) total annual revenue from all sources of 750 million euros (\$815 million USD) or more, and (2) annual Canadian revenue of more than \$20 million CAD (\$15 million USD). Media reports have [indicated](#) that the Canadian government may issue additional guidance related to the DST's implementation.

The Canadian government has [stated](#) that it has a “strong preference” for a multilateral approach to taxation of the digital economy but is moving forward with the DST to “protect the interests of Canadians.” A Canadian budget agency [estimated](#) that the DST would increase Canadian government revenues by \$7.2 billion CAD (\$5.2 billion USD) from FY2023 to FY2027. Some Canadian industry groups have [expressed concerns](#) about the DST's potential negative impacts on U.S.-Canada trade relations and Canada's economy.

## Considerations for Congress

**Potential Impacts on U.S. Firms.** Some Members of Congress have expressed concerns that DSTs disproportionately affect U.S. firms (e.g., H.Res. 268). Some industry associations [have stated](#) that Canada's DST could “cost U.S. exporters and the U.S. tax base up to \$2.3 billion annually and could directly result in the loss of thousands of full-time U.S. jobs.” While U.S. firms may comprise a large share of affected firms and face increased tax burdens, the tax burden from a DST may be [passed to the consumer](#) because of the design of DSTs as taxes on revenue instead of profits. The DST may also result in [higher prices](#) for Canadian consumers. A tax policy that raises prices for Canadian consumers and imposes costs on U.S. firms may pose a barrier to the export of U.S. digital services to Canada.

**Potential U.S. Response.** Some industry groups have [commented](#) that Canada's DST may “directly contravene Canada's obligations under both the (2020) United States-Mexico-Canada Agreement (USMCA) and the World Trade Organization (WTO).” Canadian officials have indicated that they are discussing the DST with U.S. counterparts. The Office of the U.S. Trade Representative (USTR) [previously investigated other countries' DSTs](#) under Title III of the Trade Act of 1974 (19 U.S.C. §§2411-2420), commonly referred to as “Section 301.” USTR found these DSTs to be discriminatory toward U.S. companies and announced plans for retaliatory tariffs. Following the October 2021 OECD/G20 Inclusive Framework announcement, USTR terminated all tariffs and investigations. USTR has [stated](#) that it would assess a Canadian DST against the “same standard” as the abovementioned DST investigations.

Some Members of Congress and U.S. industry groups have urged USTR to respond to Canada's DST by initiating a Section 301 investigation and/or pursuing [consultations with Canada under USMCA](#). Congress has an oversight role in USMCA implementation—including the [scheduled joint review of USMCA](#) in 2026—and Canada's compliance with USMCA commitments.

**Implementing OECD Pillars 1 and 2.** Pillar 1 would allow countries to tax some profits of large multinationals for most industries and would require some countries to eliminate DSTs or forgo their tax rights. Pillar 2 would impose a global minimum tax on large multinationals, increasing overall worldwide taxes on profits. Some Members have argued [the OECD/G20 framework plan](#) would disproportionately affect U.S. companies and have criticized what they view as the Biden Administration's lack of adequate consultation with Congress. Other Members have argued the framework would result in a more cohesive global tax policy applied to U.S. firms than the implementation of individual DSTs. Pillar 1 will likely not go forward without U.S. agreement. [Other countries](#) are already adopting Pillar 2. The adoption of Pillars 1 or 2 in the United States would require congressional action.

**Digital Economy.** Proposals to tax digital services coincide with increased domestic and global debate on [digital trade](#). Congress is considering legislating in areas related to digital trade, such as regulation of the technology sector, that may overlap with DSTs and a global tax framework.

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