Canada's Digital Services Tax Act: Issues Facing Congress

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In June 2024, the Canadian government enacted Bill C-59, which included a 3% digital services tax (DST)—retroactive to January 2022—on certain revenues of large digital services providers active in, for example, online marketplaces, online advertising, social media platforms, and the sale or licensing of user data. Digital services providers had been expected to make their first tax payments by June 30, 2025. On June 27, 2025, however, President Trump announced he would terminate bilateral U.S.-Canada trade discussions due to Canada's DST. On June 29, the Canadian government announced that to resume talks, it would repeal its DST. The Canadian government has halted collection of the DST and will reportedly repeal the DST through legislation in the fall.

Some Members of Congress during the 118th Congress had argued that Canada's DST would disproportionately affect U.S. firms and urged the Office of the U.S. Trade Representative (USTR) to consider retaliatory 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 an estimated $225 billion of revenue and 293,000 workers in 2025. Following Canada's policy shift, Members may assess whether and/or how to influence the executive branch's approach to foreign DSTs.

Background

Globally, around 30 countries have implemented DSTs. DSTs are taxes on revenue derived from the sale of digital goods and services in the jurisdiction imposing the tax and differ from existing corporate income taxes. 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 in a jurisdiction 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

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at least 2025 to allow for additional negotiations. Canada objected, stating that it would not support a DST moratorium without a "firm and binding" timeline for Framework implementation.

Canada's DST entered into force on June 28, 2024, and applied to foreign and Canadian digital services providers that earn both (1) total annual revenue from all sources of 750 million euros ($880 million USD) or more, and (2) annual Canadian revenue of more than $C20 million ($15 million USD). A Canadian budget agency estimated that the DST would increase Canadian government revenues by C$7.2 billion ($5.3 billion USD) from FY2023 through FY2027. Some Canadian industry groups expressed concerns about the DST's potential negative impacts on U.S.-Canada trade relations and Canada's economy.

In August 2024, USTR requested consultations with Canada under the 2020 United States-Mexico-Canada Agreement (USMCA). In February 2025, President Trump directed USTR to determine whether to pursue a USMCA dispute panel related to Canada's DST or an investigation under Section 301 of the Trade Act of 1974. From 2019 to 2021, USTR conducted investigations under Section 301 into other countries' DSTs, determining some DSTs were discriminatory toward U.S. companies, inconsistent with prevailing international tax policy principles, and burdened or restricted U.S. commerce. USTR announced retaliatory tariffs but suspended all tariffs and investigations following the conclusion of the OECD/G20 Framework, which would require countries to eliminate their DSTs. Implementation of the Framework stalled, and the United States withdrew from the Framework in January 2025.

Considerations for Congress

Implications for Other Trade Negotiations. It is unclear whether ongoing or future trade talks under the second Trump Administration will seek the removal of foreign DSTs. The United Kingdom has a DST in effect and has reached an initial deal on tariff rates with the United States, which reportedly does not include plans to modify or remove the DST. In April 2025, India withdrew its DST on digital advertising services, first implemented in 2016, amid U.S. concerns and in line with India's commitments under the OECD/G20 framework. Some Members of Congress have argued that DSTs may disproportionately affect U.S. firms (e.g., 118th Congress, H.Res. 268). Some Members of Congress who oppose foreign DSTs may consider whether to direct the executive branch to include the issue in ongoing trade talks.

Potential U.S. Action on DSTs. Some Members of Congress may also consider whether to urge the Administration to pursue unilateral measures to investigate and take action against foreign DSTs, such as Section 301. Other Members who prefer a plurilateral approach may consider whether the United States should rejoin the OECD/G20 framework, the implementation of which would require congressional action. The Administration has indicated that it will evaluate the impact of DSTs on U.S. firms, including potentially initiating an investigation under Section 301, renewing previous investigations, or taking action on taxes "designed to transfer significant funds…to the foreign government." Pillar 1 of the OECD/G20 framework would allow countries to tax multinational profits in the jurisdictions in which they have sales, potentially having a large impact on the amount of taxes paid by U.S. digital services providers to foreign governments, but will likely not move forward without U.S. support. A number of countries enacted DSTs as a temporary policy while awaiting Pillar 2 adoption. Pillar 2 would allow countries to impose a global minimum tax rate on large multinationals and is in the process of being implemented by some countries, potentially resulting in larger tax rates for U.S. multinationals in foreign jurisdictions. Some Members had argued the framework would disproportionately affect U.S. companies and asserted that the Biden Administration had not adequately consulted with Congress. Other Members argued the framework would result in a more cohesive global tax policy applied to U.S. firms than the implementation of unilateral DSTs.

Author Information

Kyla H. Kitamura
Analyst in International Trade and Finance

Danielle M. Trachtenberg
Analyst in International Trade and Finance

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