

2021 Issue No. 29
14 October 2021

Tax Alert – Canada

Federal government announces it will enact Digital Services Tax but states its implementation is conditional

EY Tax Alerts cover significant tax news, developments and changes in legislation that affect Canadian businesses. They act as technical summaries to keep you on top of the latest tax issues. For more information, please contact your EY advisor or EY Law advisor.

On 8 October 2021, following the announcement the same day of the international [agreement](#) reached by the Organisation for Economic Co-operation and Development (OECD) on the core design features of the two-pillar solution developed in the Base Erosion and Profit Shifting (BEPS) 2.0 project, Deputy Prime Minister and Finance Minister Chrystia Freeland issued a [statement](#) confirming that the federal government intends nevertheless to move ahead with legislation finalizing the enactment of a Digital Services Tax (DST) by 1 January 2022. This step is in keeping with a proposal first announced in the 2020 Fall Economic Statement and again in Budget 2021.

However, the statement added that the DST would only be imposed as of 1 January 2024, rather than 1 January 2022 (as originally announced), and only if the convention implementing the BEPS 2.0 tax regime under the international agreement has not come into force by 31 December 2023. This change is consistent with the agreed statement released by the OECD under which no newly enacted DSTs or other relevant similar measures will be imposed on any company from 8 October 2021 until the earlier of 31 December 2023 or the coming into force of the implementing convention. See [EY Global Tax Alert 2021-5732](#) "OECD announces conceptual agreement in BEPS 2.0 project" and [EY Global Tax Alert 2021-6034](#) "OECD releases statement updating July conceptual agreement on BEPS 2.0 project" for more details on the agreed statement.

In the event that the implementing convention does not come into force by 31 December 2023, the Canadian DST would be payable as of 2024 in respect of revenues earned as of 1 January 2022. The statement added that it is the Deputy Prime Minister's sincere hope that the timely implementation of the new international system will make this unnecessary.

Background

In its Fall Economic Statement of 30 November 2020, the federal government stated:

Canada has been working with our international partners in a process led by the Organisation for Economic Co-operation and Development with a view to developing a coordinated approach by mid-2021. The government remains committed to a multilateral solution, but is concerned about the delay in arriving at consensus. The government therefore proposes to implement a tax on corporations providing digital services, with effect from January 1, 2022, which would apply until such time as an acceptable common approach comes into effect. (See [EY Canada Tax Alert 2020 Issue No. 57](#) and the [2020 Fall Economic Statement](#).)

Budget 2021, tabled on 19 April 2021, provided additional details, stating that the DST would be imposed at a rate of 3% on revenue from certain digital services that rely on the engagement, data and content contributions from Canadian users and that the tax would apply to large businesses with gross revenue of €750 million or more in the previous calendar year and in-scope revenue associated with Canadian users of more than \$20 million in the particular calendar year. (See [EY Canada Tax Alert 2021 Issue No. 19](#) and the [2021 Federal Budget Plan](#).)

The October 2021 statement from the OECD/G20, which was agreed to by 136 of the 140 member jurisdictions in the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting, updates and finalizes a July 2021 statement regarding the conceptual agreement on fundamental reforms to international tax rules through a two-pillar solution to address the tax challenges arising from the digitalization of the economy (the BEPS 2.0 project). The July statement is described in detail in an EY Global Tax Alert issued on 1 July 2021 (see “OECD announces conceptual agreement in BEPS 2.0 project”), as is the October statement, in the EY Global Tax Alert issued on 11 October 2021 (see “OECD releases statement updating July conceptual agreement on BEPS 2.0 project”), both referred to above in the last sentence of the Highlights box of this Alert.

Learn more

For more information, please contact your EY or EY Law advisor or one of the following professionals:

Ottawa

Rene Fleming
+1 613 598 4406 |
rene.fleming@ca.ey.com

Fred O’Riordan
+1 613 598 4808 |
fred.r.oriordan@ca.ey.com

Paul Mulvihill
+1 613 598 4339 |
paul.f.mulvihill@ca.ey.com

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