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TaxNewsFlash

Canada

Large Businesses — Digital Services Tax Now in Effect

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Large businesses should consider how they may be affected now that Canada has enacted the new 3% digital services tax (DST). Specifically, certain large businesses may be subject to the new DST on certain online revenues earned effective January 1, 2022. Canada's Governor in Council has now fixed the coming-into-force date for the DST as June 28, 2024, which was the final step to enact the new tax, after the measures received Royal Assent on June 20, 2024. The order fixing the coming-into-force date was published on July 3, 2024.

In light of these changes, businesses should determine how they may be affected by the DST rules, including considering the accounting implications regarding their obligations under this new tax law. Affected businesses will also have to register with the CRA by January 31, 2025 and file their first DST return and pay any related taxes by June 30, 2025, or else they could face penalties and interest.

Background
Canada originally announced the proposed DST in its 2020 Fall Economic Statement and provided the framework of the proposed new 3% DST in its 2021 federal budget. Essentially, the new 3% DST applies retroactively to certain revenue from certain digital services earned effective January 1, 2022. Canada advised that the DST would only take effect if its preferred solution of an international multilateral treaty to implement other tax measures had not yet come into force (i.e., the convention to implement the OECD's Pillar One solution for international tax reform). Pillar One is intended to ensure that certain multinational businesses pay tax in countries where they have consumer-facing activities but do not have a physical presence.

Canada later stated that it intended to move ahead with the new 3% DST if the convention to implement Pillar One was not in force on January 1, 2024. The multilateral agreement remains outstanding, and consistent with Canada's previous comments, the DST was included in Bill C-59, which received Royal Assent on June 20, 2024. However, as a final step to enactment, the Governor in Council was required to fix a coming-into-force date that could not be earlier than January 1, 2024.

For details, see *TaxNewsFlash-Canada* 2024-27, "Canada Enacts Bundle of Outstanding Tax Measures" and *TaxNewsFlash-Canada* 2023-33, "Businesses — Canada Revises Digital Tax Proposals".

Who is affected?

Large businesses will generally be subject to the new 3% DST if they have global group revenue of €750 million or more in their fiscal year ending in the previous calendar year and also have more than $20 million of "in-scope" revenue related to Canadian users for the particular calendar year. However, businesses with $10 million of in-scope revenue for a particular calendar year may also be required to register under the DST rules.

How is revenue calculated?

The new DST applies to in-scope revenue that exceeds the $20 million threshold. To determine their in-scope revenue, taxpayers must calculate their revenue under the following categories associated with users in Canada, each of which has distinct sourcing rules:

- Online marketplace services revenue — Generally earned from providing an online marketplace that helps match sellers of goods and services with potential buyers
- Online advertising services revenue — Generally earned from services aimed at the placing of online targeted advertisements, including facilitating the delivery of an online targeted advertisement and providing digital space for an online targeted advertisement
- Social media services revenue — Generally earned from providing a social media platform that facilitates interactions between users, or between users and certain digital content
- User data revenue — Generally earned from the sale or licensing of data gathered from users of an online marketplace, a social media platform, or an online search engine.

Simplified revenue calculation election for 2022 and 2023

Businesses can elect to simplify the calculation of their Canadian digital services revenue for their 2022 and 2023 calendar years by using a formula intended to approximate the in-scope revenue based on an affected taxpayer's Canadian digital services revenue from 2024, subject to certain conditions.

Registration, payment and filing obligations

Affected businesses are required to file annual DST returns and remit any DST payable by June 30 of the calendar year following the calendar year for which a return is filed. As a result, affected taxpayers with in-scope revenue for 2022, 2023 and/or 2024 above $20 million are now required to file a DST return and pay the related tax on those years, by June 30, 2025. In addition, taxpayers that earn a total revenue from all sources of €750 million or more in a fiscal year ending in the previous calendar year and have in-scope revenue of more than $10 million must register under the new rules by January 31 of the following year. As a result, affected taxpayers may have to register for the DST by January 31, 2025.

We can help

Your KPMG adviser can help you determine how you may be affected by the DST. We can also help you manage your related compliance obligations. For details, contact your KPMG adviser.
