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TaxNewsFlash

Canada

Large Businesses — DST Cancelled, Now What?

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Large businesses that made payments under Canada's 3% digital services tax (DST) ahead of the June 30, 2025 deadline should follow tax developments including related guidance for upcoming action to take, including obtaining refunds of tax already paid, now that Canada has announced its intention to cancel the DST. Under the DST rules, affected businesses that earn specific kinds of online revenues that met certain thresholds had to file their first DST return and pay the DST owing by June 30, 2025. However, Canada announced the cancellation of the DST on June 29, 2025 to support the negotiation of a comprehensive trade arrangement with the United States.

In its related News Release, Canada's Department of Finance also notes that Canada and the United States have agreed to resume trade negotiations and aim to have a deal by July 21, 2025.

Background
Canada proposed the DST in its 2020 Fall Economic Statement and finalized these rules in July 2024. The 3% DST applied on in-scope revenue from specific digital services. The DST was expected to apply until an international multilateral treaty to implement other tax measures came into force (i.e., the convention to implement the OECD's Pillar One solution for international tax reform).

Generally, businesses were subject to the DST rules if they had any amount of in-scope revenue and they also met the following two-tier test:

- The business had, or was a member of a consolidated group that had, total revenue of €750 million or more in its fiscal year ending in the previous calendar year, and

- The business had, or was a member of a consolidated group that had, more than $20 million of “in-scope” revenue related to Canadian users for the particular calendar year.

In-scope revenues were generally described as four types of revenues from online sources, including online market services, advertising services, social media services and user data.

Affected businesses, that met certain revenue thresholds, also had to register for the DST by January 31, 2025, and file their first DST returns and pay the DST owing, by June 30, 2025. For affected businesses’ first DST returns, the 3% DST applied on in-scope revenue earned for 2022, 2023 and 2024. In some cases, affected businesses were required to register even if they did not have any filing requirements.

For details, see *TaxNewsFlash-Canada* 2024-49 “Large Businesses — Register for DST by January 31” and 2024-28, “Large Businesses — Digital Services Tax Now in Effect”.

KPMG observations

Some affected businesses may have already filed their DST returns and paid the DST owing on in-scope revenue for 2022, 2023 and 2024. At this time, the Canada Revenue Agency (CRA) has not yet released related written guidance on how to claim a refund of the DST paid in advance of the June 30 deadline. It should be noted that in some cases, the CRA does not issue a refund based on proposed tax changes (e.g., budgets or other tax announcements) until the related legislation is finalized. In the case of DST paid, the CRA has verbally confirmed to KPMG that refunds will only be paid out once the legislation to rescind the DST has been finalized. Affected businesses that DST paid in advance of the June 30 deadline should stay abreast of upcoming guidance on how to claim a related refund. The CRA is expected to update its DST webpage shortly.

Also, under the current DST rules, the CRA cannot refund amounts until the affected businesses have filed certain returns under other tax rules. Based on their compliance history, affected businesses that have certain outstanding returns could potentially have their DST refunds withheld until such returns are filed.

It is interesting to note that Finance announced that it was “rescinding” the DST, and not simply delaying the DST. As a reminder, Canada had previously delayed the application of the DST rules in light of tax negotiations related to an international multilateral treaty to implement other tax measures (i.e., the convention to implement the OECD’s Pillar One solution for international tax reform).

Finance also notes that legislation to rescind the DST will be introduced “soon”. It is unclear when such legislation may be finalized as the House of Commons is now adjourned for the summer and is scheduled to return only in September.

The CRA has verbally confirmed to KPMG that its online filing platform will no longer accept DST returns. Finance has noted in its News Release that it will be halting the June 30, 2025 DST collection, a fact that was also verbally confirmed by the CRA.

Affected businesses should also track any further updates or upcoming guidance related to their DST registration. The issue is whether affected businesses must request the cancellation of their DST registration, or whether the CRA will cancel all DST registration automatically on a particular day.

While Canada has rescinded the DST, a question that remains is whether Canada would reinstate the DST rules if Canada and the United States’ trade negotiations do not result in an understanding by July 21, 2025.

We can help

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