CANADA IS AN EXCEPTION AMONG THE INDUSTRIALIZED NATIONS:

Of the 35 OECD members, only Canada, Mexico and Turkey have yet to give any indication of plans to levy a sales tax on e-commerce.[13]

More than 50 states currently apply a sales tax to online purchases from other countries.[14] The applicable rate varies from one country to the next, from 5% in Taiwan to 25% in Norway. With its GST of 5%, Canada would remain one of the lowest-taxing countries in the digital economy.

COUNTRY	DATE ADOPTED	RATE
Albania	January 1, 2015	20%
Australia	July 1, 2017	10%
Bangladesh	2019	15%
Belarus	January 1, 2018	20%
European Union (28 states)[15]	January 1, 2015	Various
Iceland	November 1, 2011	24%
India	December 1, 2016	15%
Japan	October 1, 2015	8%
New Zealand	October 1, 2016	15%
Norway	July 1, 2011	25%
Russia	January 1, 2017	18%
Serbia	April 1, 2017	20%
South Africa	April 1, 2014	14%
South Korea	July 1, 2015	10%
Switzerland	January 1, 2010	8%
Taiwan	May 1, 2017	5%
Tanzania	July 1, 2015	18%
United States (24 states)[16]	Various	Various

[13] OECD, *Members and partners*, consulted November 13, 2017: http://www.oecd.org/about/membersandpartners/ and note 14.
[14] OECD (2017), *Consumption Tax Trends 2016: VAT/GST and Excise Rates, Trends and Policy Issues*, OECD Publishing, Paris; Standing Committee on Canadian Heritage, *Disruption: Change and Churning in Canada's Media Landscape*, Ottawa, June 2017, Appendix B; Marwah Rizqy, *Le commerce électronique : l'Australie s'adapte à la nouvelle réalité*, Regard, R2017-03, July 31, 2017; Quaderno, *Digital Taxes Around The World: What to Know about New Tax Rules*, July 2017: https://quaderno.io/blog/digital-taxes-around-world-know-new-tax-rules/.
[15] Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, United Kingdom.
[16] The following U.S. states have adopted legislation in compliance with the *Streamlined Sales and Use Tax Agreement*: Arkansas, Georgia, Indiana, Iowa, Kansas, Kentucky, Michigan, Minnesota, Nebraska, Nevada, New Jersey, North Carolina, North Dakota, Ohio, Oklahoma, Rhode Island, South Dakota, Tennessee, Utah, Vermont, Washington, West Virginia, Wisconsin and Wyoming.

For all of these reasons, we believe that the Government of Canada should update its laws and policies to ensure that Canadian and foreign companies are subject to the same treatment with respect to taxation and regulation when they do business with consumers in Quebec or any other Canadian province or territory.

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Taxation and the Transnational Digital Economy

WHY should Canada collect sales taxes on foreign digital platforms?

FINANCING PUBLIC SPENDING WHILE ALSO SUPPORTING ECONOMIC ACTIVITY:

The primary objective of any government's taxation policy is to determine how to generate revenue to finance the government's expenditures.

Expenditures in the form of payments directly to persons, to provincial and territorial governments and to other organizations account for approximately 65 cents of each dollar spent by the Canadian federal government.[1]

In 2016-2017, transfers to persons (seniors benefits, employment insurance benefits and children's benefits) represented the biggest (29.2%) transfer category with regard to federal government spending.[2]

The second-biggest (22.1%) component of spending consisted of transfers to other levels of government (Canada Health Transfer, Canada Social Transfer, Equalization and Territorial Formula Financing and gas tax transfers).[3]

Department of Finance Canada, *Annual Financial Report of the Government of Canada, Fiscal Year 2016–2017.*
[2] *Ibid.*
[3] *Ibid.*

Affirming our sovereignty:

The power to tax is a basic feature of sovereign nation-states. In democratic nations, it provides governments the resources they need to implement the policies for which they were elected. Through taxation, governments can consequently achieve specific strategic objectives, whether economic, social, cultural or other.

Monies collected by the state may be reallocated toward certain categories of citizens or organizations to offset or mitigate the inequities that are inherent to the operation of a market economy.[4] The various categories of levies collected through taxation include indirect taxes charged at the transaction level and applicable to production and consumption activities. These include value-added taxes (VAT, GST), excise taxes and customs duties.[5]

Table 1: Summary of GST/HST that Case Study Companies Would Potentially Remit if They Were Carrying on Business in Canada

Company	GHT/HST that Would be Remitted
Vendors	
Netflix	$52 million
Spotify	$9.4 million
Marketplace Operators	
Uber and Ridesharing	$4.9 - $24.5 million
Airbnb and Room-sharing	$3.7 - $5.6 million
Hybrid Vendors and Market Operators	
Kindle e-books	$10.2 millions ($0,9 million directly from Amazon published titles)
SrubHub	$5.6 million
Total	**$85.8 to $107.3 million**

Source : Wyonch R., *Bits, Bytes, and Taxes : VAT and the Digital Economy in Canada*, Institut C.D. HOWE, Commentary no. 487, 2017.

Tax exemptions deprive governments of revenue. Without tax revenue, governments are no longer able to develop and implement their policies.

According to a study by the C.D. Howe Institute, lost tax revenue for the federal and provincial governments amounts to an estimated $62 million each year (see table opposite)[6] for the two most popular streaming services, Netflix and Spotify, alone. Another independent researcher has pegged uncollected taxes from Netflix at $89 million per year.[7]

By refraining from fulfilling its full role with respect to taxation, the government is abdicating a portion of its sovereignty and is in contradiction with modern principles of democracy.

The goods and services tax (GST) was introduced in Canada in 1991:

On January 1, 1991, the Government of Canada adopted Bill C-62, imposing a goods and services tax (GST) to replace the federal sales tax (FST) that had been in place since 1924.

The GST is an indirect tax charged on the value added at each stage in the production and distribution of goods and services. The Canadian GST currently stands at 5%.

In 2016-2017, the GST generated 11.7% of the Canadian government's total revenue.[8]

Maintaining a neutral and fair tax policy:

The goal of democratic governments is to maintain a tax policy that is effective and easy to manage, but also neutral and fair.

However, the evolution of technology and globalization of trade have distorted this objective by making it easier to avoid paying taxes, particularly in the digital realm. This has led to a weakening of the neutrality of tax policies.

Suppliers of goods and services located in Canada are increasingly at a disadvantage in comparison to suppliers located outside of the country that evade their tax obligations through entirely legal means. Notably, companies based in Canada are required to charge the GST. Their competitors overseas are not obliged to collect GST unless they have a physical office, reseller or server located in Canada through which they provide their goods or services.

This situation will ultimately result in lost revenue for Canadian companies, followed by job losses impacting mainly the middle class.

Addressing a clear anachronism:

Canadian tax laws were developed during an era when the Internet did not exist and consequently do not provide specific guidance concerning e-commerce activities. As a result, under current legislation, online transactions are subject to the general guidelines governing GST and harmonized sales tax (HST).

Companies are required to collect these taxes only if they have a physical presence in Canada.[9]

Under the current rules, when purchasing from suppliers located outside of Canada, Canadian customers are expected to self-assess and remit the taxes payable on goods and services acquired from these suppliers via the Internet, except in cases where personal property is imported to Canada. In practice, this obligation to self-assess is not respected – in large part due to lack of awareness. It is also, for all intents and purposes, impossible for tax authorities to monitor its enforcement.

To address this anachronism, the federal government needs to amend the *Excise Tax Act*[10] to make it applicable to companies selling digital goods or services intended for consumption in Canada regardless of where these companies are located, in accordance with international VAT/GST guidelines.

Because a recognized international framework exists:

Previously, international tax rules assigned the right to impose or collect sales taxes not to the state in which a company carried out its activities but rather to the state where it maintained its head office. Now that the paradigm is shifting, the critical issue for governments is to determine whether the GST should be imposed by the originating or destination jurisdiction.

Based on the work of the OECD and other international organizations, the most effective and efficient approach to ensuring the appropriate collection of VAT/GST on the international provision of intangible goods and services between companies and consumers is to have non-resident suppliers identify themselves and pay the VAT/GST in the destination jurisdiction.

In this regard, the OECD has developed the *International VAT/GST Guidelines*,[11] which provide that the jurisdiction in which a customer maintains his or her usual residence has the right to charge GST on intangible goods and services provided remotely. This includes the sale of digital goods and services by companies located in other countries.

Published in 2015, these guidelines have been adopted by 104 jurisdictions and international organizations[12] as a global standard for the purpose of the application of VAT/GST to the international exchange of intangible goods and services.

[4] Cliche, P., "Politique fiscale," in L. Côté and J.-F. Savard (Eds.), *Le Dictionnaire encyclopédique de l'administration publique* (online), 2012, www.dictionnaire.enap.ca.
[5] *Ibid.*
[6] Wyonch, R., *Bits, Bytes, and Taxes: VAT and the Digital Economy in Canada*, C.D. Howe Institute, Commentary no. 487, 2017.
[7] John Anderson, *Digital Companies Should Pay Their Fair Share of Tax*, thestar.com, October 26, 2017: https://www.thestar.com/opinion/commentary/2017/10/26/digital-companies-should-pay-their-fair-share-of-tax.html.
[8] Department of Finance Canada, *Annual Financial Report of the Government of Canada, Fiscal Year 2016–2017.*

[9] Standing Committee on Canadian Heritage, *Disruption: Change and Churning in Canada's Media Landscape*, Ottawa, June 2017, p. 38.
[10] *Excise Tax Act* (R.S.C., 1985, c. E-15).
[11] OECD (2017), *International VAT/GST Guidelines*, OECD Publishing, Paris.
[12] OECD (2017), *International VAT/GST Guidelines*, OECD Publishing, Paris, p. 4.