Canadians *for*
**Tax Fairness**
Canadiens pour une fiscalité équitable

REPORT

October 2021

A CANADIANS FOR TAX FAIRNESS REPORT

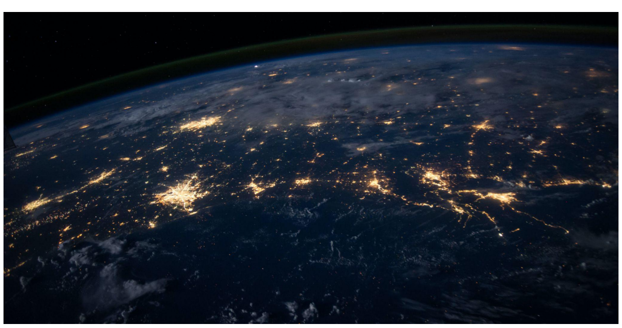
# A Tax Break for Tech Giants

## The flaw in the OECD agreement

By Toby Sanger

## HIGHLIGHTS

- Canada's digital services tax, as previously planned, would bring in more revenue than the planned OECD tax deal, thus giving large multinational digital service corporations a gigantic tax break at the expense of Canadian public services.
- The OECD tax deal would unnecessarily force Canada and other countries to eliminate digital services taxes.
- The OECD tax deal falls short of implementing a simpler and fairer global tax system, in which *all* multinational corporate profits are allocated between countries for tax purposes, as the US/Canada do between states/provinces, based on sales, employment and capital.



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Canada has just signed onto **an OECD agreement** that will give tech giants a massive tax break compared to what they would pay through Digital Services Taxes to many countries, including Canada. This agreement will then go for further approval to the G20 Finance Ministers meeting on 13 October and to the G20 Leaders Summit at the end of this month.

Analysis by Canadians for Tax Fairness estimates that the taxes that tech giants such as Amazon, Google, Facebook, eBay and Uber would pay under this new deal will be less than half—and in some cases 100% less—than what they would pay through Canada's proposed Digital Services Tax. The Digital Services Tax, which is supported by all parties in Parliament, was due to come into effect 1 January 2022, but would be eliminated as part of this OECD deal.

The digital giants—who have been superstars of international tax dodging—will save hundreds of millions in taxes under this deal from Canada alone, and it doesn't appear that other large companies will make up the difference.

As the following table shows, if Canada eliminates its **proposed Digital Services Tax**, at 3% of the revenues of large e-commerce companies with **the "Pillar 1" proposal** as part of the OECD agreement, these big tech companies will get a massive tax break, and the federal government much lower tax revenues.

# BIG TECH TAXES FOR CANADA

## DST vs OECD Pillar 1 Agreement

All figures in US$ millions

| | Amazon | Alphabet/ Google | Facebook | eBay | Uber |
|---|---|---|---|---|---|
| Total revenues | $386,064 | $182,527 | $85,965 | $10,271 | $11,139 |
| Income before taxes | $24,178 | $48,082 | $33,180 | $3,420 | $(6,946) |
| Profit margin | 6.3% | 26.3% | 38.6% | 33.3% | -62.4% |
| Estimated revenues from Canada (subject to the DST) | $5,821 | $3,582 | $2,090 | $500 | $400 |
| **Canada DST revenues @ 3%** | **$175** | **$107** | **$63** | **$15** | **$12** |

### OECD Pillar 1 Tax Revenues

| | | | | | |
|---|---|---|---|---|---|
| - Routine Profits at 10% | $38,606 | $18,253 | $8,597 | $1,027 | $1,114 |
| - Super Profits above 10% | - | $29,829 | $24,584 | $2,393 | - |
| - 25% of Super Profits | - | $7,457 | $6,146 | $598 | - |
| - Share to CAN, based on sales % | - | $146 | $149 | $29 | - |
| **- Canada tax revenues at 15%** | **-** | **$22** | **$22** | **$ 4** | **-** |
| | | | | | |
| ***Tax reduction DST > OECD*** | *$175* | *$85* | *$41* | *$11* | *$12* |
| ***- % tax reduction*** | ***-100%*** | ***-80%*** | ***-64%*** | ***-71%*** | ***-100%*** |

*Sources: Individual corporate annual 10-K reports from the United States SEC. Revenues from Canada are estimated using various sources, including ecommerceDB revenue analytics, the CMCRP, and other estimates.*

The figures above are based on different estimates of the revenues that these companies derive from their sales to Canadians, and that would be subject to the proposed DST. Unfortunately, large multinational corporations are not (yet) required to publicly report their revenues, profits and taxes paid on a country-by-country basis—but they should be. But whatever the actual figures are, it is clear they will get a gigantic tax break if the federal government agrees to shelve its planned Digital Services Tax with this OECD proposal.

Other countries that also have digital services or similar taxes will also lose out under this deal—as George Turner at TaxWatch has **demonstrated**—and there isn't a lot in it for poorer developing countries either.

Don't get us wrong, though. This proposal for taxation of large multinationals is definitely going in the right direction. It just needs to go much further, apply to a much greater number of multinationals and to a much larger share of—preferably all—their profits.

The OECD agreement breaks important ground, with a global minimum corporate tax rate, allocation of profits by real economic factors, and additional rights to tax for developing countries. These are all measures that Canadians for Tax Fairness and other tax justice organizations have advocated, but they are too limited in application in this agreement—applying only to 25% of profits over a 10% profit rate—and countries shouldn't be required to eliminate other taxes such as Digital Services Taxes as part of the deal.

The existing broken international corporate tax system should ideally be replaced with a simpler and fairer system in which all multinational corporate profits are allocated between countries for tax purposes using a fair allocation formula that includes sales, employment and capital, just as Canada and the US do between provinces and states for taxation purposes.

A fairer deal would include a higher share of multinational profits allocated (at least 30% of "non-routine" profits, and a lower than 10% rate for routine profits), not force countries to eliminate their digital services taxes or similar measures, and a fairer allocation formula that provides more revenue to developing countries, as the G24 group of countries have called for.

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## BACKGROUND

All political parties represented in Canada's parliament included some form of Digital Services Tax in their 2019 election platforms. As **proposed** by the federal Liberal government and included in the 2021 Budget, Canada's Digital Services Tax would apply a 3% tax starting 1 January 2022 to the Canadian revenues related to online marketplaces, social media, online advertising and user data sales and licensing services, for businesses with worldwide annual revenues of at least 750 million Euros and Canadian revenues of at least $20 million annually. The PBO **estimated it would bring in C$840 million** (US$630 with a Canadian dollar at US$0.75) in its first full year and more than $1 billion annually in a few years.

The OECD's Pillar 1 tax proposal, as outlined **in the agreement 8 October 2022**, would introduce a new taxing right over a share of the profits of about 100 of the largest and most profitable multinationals. This taxing right would only apply to 25% of their "super profits" above the "routine profit" rate of 10% and it would be allocated to different countries according to their share of total sales of these companies.

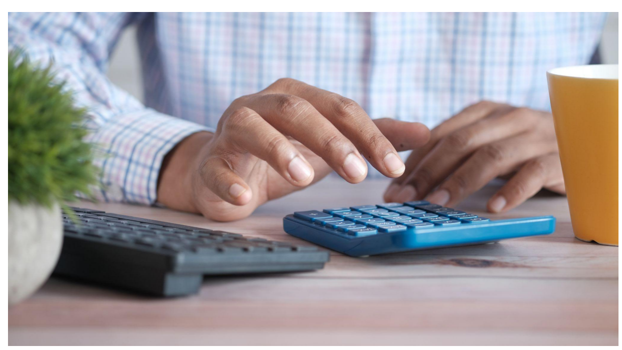

Photo: Towfiqu barbhuiya on Unsplash. CC.

## ENDNOTES


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## ABOUT TOBY SANGER

Toby Sanger has been a widely respected Canadian economist for over 30 years, working previously as economist for the Canadian Union of Public Employees, as chief economist for the Yukon, as principal economic adviser to the Ontario Minister of Finance, as economic adviser to First Nations, and as an environmental economist. Prior to that, he also worked as a baker, in a circus, and as a journalist. He lives in Ottawa.

## ABOUT CANADIANS FOR TAX FAIRNESS

Canadians for Tax Fairness is a non-profit, non-partisan organization that advocates for fair and progressive tax policies, aimed at building a strong and sustainable economy, reducing inequalities, and funding quality public services.

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