



**CANADIANS FOR TAX FAIRNESS**  
CANADIENS POUR UNE FISCALITÉ ÉQUITABLE



## **Tax foreign-based E-commerce Companies to Level the Playing Field**

**Brief to House of Commons Standing Committee on International Trade  
Re: Study on Progressive Canadian Enterprises and SMEs through Electronic Commerce**

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E-commerce companies such as Netflix, Google (YouTube), Amazon, Facebook, Uber, and Airbnb, are capturing a huge and growing share of the Canadian market but pay little or no taxes. They have been exempted from paying taxes by the Canada Revenue Agency because they have no physical presence in Canada and therefore are deemed not to be “carrying on business” in Canada.<sup>i</sup> This policy is outdated.

You can’t talk about how the government can support Canadian businesses to be able to compete and grow through electronic commerce unless you address the need to level the playing field.

The foreign-based e-commerce sector now has revenues of more than \$20 billion a year from sales in Canada and just Google and Facebook together capture 64% of all internet advertising dollars spent in Canada – over \$2.4 billion. Internet advertising is growing rapidly and now captures 34% of all ad spending, compared with 30% for television, 13% for daily newspapers and 14% for radio.<sup>ii</sup>

Foreign e-commerce companies are squeezing out many Canadian media companies, taxi services, hotels and retailers, including many small businesses. Good jobs are being lost. Canadian companies are losing because of unfair competition to foreign companies that pay little or no taxes.

The European Union, New Zealand, Australia, Norway, South Korea, Japan, Switzerland, and South Africa, have modernized tax laws to respond to changing e-commerce reality.<sup>iii</sup> The OECD in its BEPS Action Plan on Addressing the Tax Challenges of the Digital Economy has recommended ways that governments can collect value added taxes where the product is purchased to help level the playing field between foreign and domestic suppliers.<sup>iv</sup> And it has just recently provided further technical advice on [Mechanisms for the Effective Collection of VAT/GST](#).<sup>v</sup>

While the 2017 Federal Budget did include a requirement that ride-share businesses pay the GST, other foreign digital economy players have not been forced to play on a level playing field. Failure to update our tax policy creates unfair competition, causes significant job losses in the journalism, media

and cultural sectors, threatens the vitality of Canadian culture and squanders the opportunity to raise several hundred million dollars in revenue for both federal and provincial governments.

We recommend that the Canadian government level the playing field by:

- a. Making all e-commerce companies with Canadian income above a certain threshold pay corporate income tax on profits from products or services sold or rented in Canada. It is difficult to estimate how much revenue this would raise as large foreign companies like Google and Netflix do not separate out their Canadian earnings but it could be as high as **\$600 million** a year.
- b. Ending the GST/HST tax exemption for electronic commerce services (above a determined sales threshold) that sell to Canadians and requiring them to collect and remit GST/HST and PST amounts to federal and provincial governments on their sales in Canada. We estimate this could raise over **\$ 2 billion** a year. (2/3 of this would go to provincial governments with \$600 million for the federal government.)

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<sup>i</sup> Canada Revenue Agency, Carrying on business in Canada, GST/HST Policy Statement P- 051R2, Date of Revision April 29, 2005. This policy statement cancels P-051R1, dated March 8, 1999: <http://www.cra-arc.gc.ca/E/pub/gl/p-051r2/p-051r2-e.html>

<sup>ii</sup> John Anderson, Over the Top Exemption, 2016: Canadian Centre for Policy Alternatives, p.11.  
[https://www.policyalternatives.ca/sites/default/files/uploads/publications/National%20Office/2016/06/Over\\_the\\_Top\\_Exemption.pdf](https://www.policyalternatives.ca/sites/default/files/uploads/publications/National%20Office/2016/06/Over_the_Top_Exemption.pdf)

<sup>iii</sup> John Anderson, Over the Top Exemption, 2016: Canadian Centre for Policy Alternatives, p.18 – 21.  
[https://www.policyalternatives.ca/sites/default/files/uploads/publications/National%20Office/2016/06/Over\\_the\\_Top\\_Exemption.pdf](https://www.policyalternatives.ca/sites/default/files/uploads/publications/National%20Office/2016/06/Over_the_Top_Exemption.pdf)

<sup>iv</sup> <http://www.oecd.org/tax/addressing-the-tax-challenges-of-the-digital-economy-action-1-2015-final-report-9789264241046-en.htm>

<sup>v</sup> <http://www.oecd.org/tax/consumption/mechanisms-for-the-effective-collection-of-vat-gst.htm>