Wednesday, August 9, 2023
tomorrowsaffairs.com
Tomorrow's Affairs
Analysis of today
Assessment of tomorrow

By: Tomorrow's Affairs Staff

Canada's tax on big-tech services - a precedent that the US will find difficult to overcome

Canada is confidently moving forward with its plan unilaterally to impose a digital services tax for big tech companies because it does not want to contribute to another delay in the global agreement on the subject.

But Canada's going solo comes at an inconvenient time and without much support among partners, placing Justin Trudeau's government under intense pressure for months.

Ottawa eagerly responded to the OECD's recent decision, under which global agreements on the introduction of a shared digital services tax are being handled (and postponed), by opting out of the agreement to postpone this tax for another year.

Canada has provoked the anger of large technological companies and principal partner countries, most notably the US, by announcing that it will unilaterally apply it as of January 1, 2024, if there is no agreement within the OECD in the meantime.

“Canada is being asked, again, having agreed to a two-year standstill, Canada is being asked again to agree to further standstills with no fixed date … so for us, that’s clearly a disadvantageous position”, said Chrystia Freeland, Canadian Finance Minister.

Pressure factor

Ottawa is thus positioning itself as a pressure factor to accelerate the agreement, which will introduce a tax rate of 3% on total revenue from digital services.

The tax, which should be implemented in more than 140 OECD member countries, is intended to discourage tech giants from using “blackmail" with tax concessions in one country by moving operations elsewhere.

Furthermore, the agreement's members' budgets would be increased by $150 to $200 billion per year as a result of this tax.

Canada has been fairly principled thus far, demanding the swift implementation of this deal, because some European countries, such as France, the UK, Italy and Spain, have previously applied these taxes unilaterally.

Canada’s patience and agreeing to a deadline extension to secure a global agreement now appears to have worn thin.

One of the reasons is that Trudeau's Liberals promised they would impose a 3% tax on multinational technology giants in the last elections, similar to what some European governments were doing at the time.

Ottawa without allies

However, Canada is almost entirely alone in this effort to pressure the OECD and partner governments.

Only four countries (not just any, but Russia, Belarus, Pakistan, and Sri Lanka) have joined Canada in refusing to extend the deadline for reaching an agreement for another year.

This not the company Canada wants to be in on any issue, particularly one this big, which is at the top of the agenda at every G7 and G20 meeting.

The biggest challenge comes from Canada's neighbour, the US, where both industry and the government reject the Canadian decision. The opposition is much stronger now than when Ottawa announced the unilateral imposition of taxes on previous occasions.

“We are acutely disappointed with Canada’s decision today to move forward with their plans”, announced the National Foreign Trade Council, an American lobby group, in response to Ottawa‘s federal government announcement that it will begin taxing large technology companies on January 1.

David Cohen, US Ambassador to Canada, was even harsher, saying that if Canada decides to move forward alone, it will leave the US no choice but ”to take retaliatory measures in the trade context, potentially in the digital trade context, in order to respond to that”.

Election year - bad time for taxes

Because of the harsh statements from the US, the Canadian authorities always leave room for adjustment, even though the new tax regulations should enter parliamentary decision-making as early as September.

Even though the "threat" of imposing a national tax on high-tech companies remains open, the Canadian government is leaving open the option that this will not happen if an agreement is reached under OECD auspices in the meantime.

Canada is not risking a trade war with the US, but its move comes at a time when decisions in Washington are already being made with the 2024 presidential campaign in mind.

In this respect, President Joe Biden's administration is expected to be particularly reluctant to jeopardising the interests of the largest US companies, and it is these companies that will be affected by the new Canadian tax if enacted on January 1.

While some analysts argue that Canada's approach is not directed at US technology giants because the same tax would apply to domestic technology companies, it is evident that American technology giants would be the most affected.

In this respect, increased taxation on American companies abroad would hardly be acceptable for any US administration, particularly during an election year, which obliges Biden's team to respond harshly to such initiatives.

Such a reaction is even more likely if the chance of Biden running against Trump again next year is factored in, as Trump will almost surely accuse him of being too soft on foreign competition.

If the Canadian precedent materialises, it will pose a challenge not only to the largest US companies but also to the entire economy since, if it passes without a strong American reaction, it may encourage others throughout the world to follow.