

Election Proposal Costing

Increasing the digital services tax rate

April 15, 2025

Increasing the digital services tax (DST) from 3% to 10% for U.S.-based companies, effective July 1, 2025.

Cost of Proposed Measure

| Fiscal year | 2025-2026 | 2026-2027 | 2027-2028 | 2028-2029 | 2029-2030 | Total |
|----------------------------------|-----------|-----------|-----------|-----------|-----------|---------|
| Total cost \$ millions | -2,376 | -2,087 | -2,040 | -2,002 | -2,002 | -10,507 |

Notes

- Estimates are presented on an accrual basis as would appear in the budget and public accounts.
- A positive number implies a deterioration in the budgetary balance (lower revenues or higher spending). A negative number implies an improvement in the budgetary balance (higher revenues or lower spending).
- Totals may not add due to rounding.

Estimation and Projection Method

Corporate revenues subject to the DST in 2024 were estimated using financial statements from public companies and projected based on trends in e-commerce and social media user growth reported by industry sources. Where necessary, web traffic and GDP data were used to estimate the share of corporate revenues earned in Canada.

The share of the tax base represented by U.S.-based companies was calculated and the increased tax rate was imposed. The effective tax rate was adjusted for forgone corporate income tax revenue as DST payments are deductible. A behavioural response from U.S. companies was also assumed.

Sources of Uncertainty

The estimated in-scope revenues are uncertain due to limited detail on revenue sources in company financial statements. Further, as the DST is a new tax in Canada, there is not yet any historical experience to provide a benchmark for revenue projections. Finally, the magnitude of any behavioural response (via companies adjusting their activities in Canada or their reporting of certain revenue streams) is highly uncertain.

Data Sources

Company Revenues

Annual reports, S&P Capital IQ

Revenue growth

Various (Shopify, Business Research Insights, PricewaterhouseCoopers)

Internet traffic data

Similarweb

GDP and exchange rates

International Monetary Fund, Haver Analytics

Behavioural response

United Kingdom Office for Budget Responsibility, National Audit Office

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