



OFFICE OF THE PARLIAMENTARY BUDGET OFFICER
BUREAU DU DIRECTEUR PARLEMENTAIRE DU BUDGET

Legislative Costing Note

This is an independent cost estimate of a budgetary measure contained in the federal government's Budget 2021. A list of the PBO's cost estimates of components of the Budget can be viewed on [its website](#).

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Short Title: The Collection of GST from Foreign-Based Sellers on Goods Sold to Canadian Residents from Canadian Fulfillment Warehouses

Description: Certain foreign-based sellers store goods in warehouses within Canada in anticipation of the goods being sold to buyers located in Canada. Once an item is purchased, it is shipped from the warehouse to the buyer.

For items over the de minimis threshold (DMT) ¹, while GST is paid on the wholesale value of a good when it is imported into Canada, GST is not necessarily collected on the gap between the wholesale value and the final price of the good. The proposed measure would ensure that GST is collected on this price gap.

For items under the DMT, no GST is paid upon entry of the good into Canada. The policy would impose GST on the final price of these items if they are stored in a fulfillment warehouse before being sold to the final customer.

If a seller is registered to collect GST, the seller themselves would be responsible for collecting GST on the final price. If a seller is not registered but they sell through a distribution platform, the platform would be responsible for collecting GST on the final price on behalf of the seller.

This policy would come into effect on July 1, 2021.

Data Sources:	Variable	Source
	2019 Amazon.ca sales and Amazon.com in Canada and 2019 E-commerce revenue in Canada	ecommerceDB
	Percentage of paid units sold by third-party sellers (Q3 2020), Percentage of American sellers that use Fulfillment by Amazon (FBA), retail e-commerce revenue in Canada	Statista
	Gross margin for online retail	NYU Stern School of Business
	Consignment values of parcels and consumer share of Canada Post parcels	Technical Paper, Modeling the Economic Effects of Raising the De Minimis Threshold in Canada, C.D. Howe Institute

¹The de minimis threshold is the dollar value under which an importer does not have to pay any taxes or duties.

Monthly retail e-commerce purchases from Canadian retailers	Statistics Canada Table 20-10-0072-01
Percentage of eBay parcels imported through mail	eBay Canada President as reported by Canadian Press on June 25, 2020

\$US to \$CAN exchange rate	Bank of Canada
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Estimation and
Projection Method:

The DMT is \$20 for goods imported by mail, but \$40 on goods imported by courier.

The Fulfillment by Amazon (FBA) program allows third-party sellers to store unsold goods in warehouses in various locations so that when a good is purchased online, the good is shipped from the warehouse that is closest to the customer's location.

This analysis assumed that the inventory of all non-Canadian third-party sellers on Amazon.ca (Amazon's Canadian website) that use FBA would be located in warehouses in Canada before they are sold.

From total Amazon.ca sales, third-party sales and sales from non-Canadian sellers were determined. The proportion of foreign third-party sellers on Amazon.ca that use FBA was estimated. The proportion of sales that would qualify for the Input Tax Credit (ITC) was taken into account in order to estimate the net GST revenue from foreign Amazon.ca vendor sales.

All of the products using FBA were assumed to be transported by couriers. For goods over the applicable DMT (\$40), the estimated profit margin was used to predict the gap between the price at the time of import and the final price. This gap is subject to GST under the proposed measure. For goods under the DMT, the entire final price is subject to GST under the policy.

This analysis assumed that all items purchased from third-party sellers on Amazon.com (Amazon's American website) that use FBA would be located in the United States at the time of purchase. As such, these purchases would not be affected by the proposed policy.

For non-Amazon e-commerce sales to Canadian buyers, very similar methodology was followed. However, the proportion of parcels shipped across the border by mail, and the amount of these packages that would be under the applicable DMT of \$20, were taken into account.

Projections regarding e-commerce purchases were based on historical Statistics Canada data and Statista data.

Sources of Uncertainty:

Although this costing took into account the effects of the COVID-19 pandemic on e-commerce, it is uncertain how these effects will unfold in future years. Some reports and data sources used in this analysis were more recent than others.

Sellers not registered for GST that sell less than \$30,000 worth of goods a year do not currently have to charge GST. Under the new policy, the platform would be obligated to collect GST on behalf of these sellers. It is possible that some of these sellers would stop using platforms, but it is unclear to what extent. This potential shift was not considered in this analysis.

The application of GST to the final price could create a behavioural response among buyers and sellers and was not considered. The magnitude of such behaviour is unclear, as many factors could come into play other than just a consumer response to having to pay more GST.

This analysis also did not calculate the amount of trade that would be exempt from GST due to the seller being a small supplier, due to a lack of data. As such, the estimates are expected to overestimate the revenue generated by the proposed policy.

It is possible that some foreign sellers are already charging GST on the final price of goods in fulfillment warehouses in Canada. Because data was not available, this was not considered, which would lead to a potential overestimation of the effect of the policy.

The calculation of government revenue loss from ITCs assumed that the final sale price of all items purchased by businesses would qualify for ITCs. Data about the proportion of these purchases that would qualify for ITCs was unavailable. As such, the revenue loss due to ITCs is expected to be overestimated in this analysis.

This analysis did not take into account how certain items that can be bought through e-commerce channels are never subject to GST, such as certain groceries. However, these items are not expected to represent a notable percentage of goods from foreign sellers in fulfillment warehouses.

This analysis used the FBA program participation by US-based Amazon sellers as a proxy for Canadian fulfillment warehouse usage among all foreign sellers. More detailed data was unavailable. Some sellers use both FBA and other methods of fulfilling orders, but it is unclear to what extent sales that do not involve FBA would be affected by the proposed policy.

It was assumed that Canadians would not buy from Canadian buyers on Amazon websites other than Amazon.ca.

The proportion of eBay parcels imported into Canada by mail was used to estimate this proportion for all non-Amazon e-commerce parcels. It is possible that the proportion could vary between different platforms or among parcels that are not sold through e-commerce platforms.

This analysis did not look at possible administration or compliance costs of the proposed policy, but these costs are expected to be minimal.

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Cost of proposed measure

\$ millions	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026
Total cost	-230	-326	-345	-362	-377

Supplementary information

\$ millions	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026
Cost	-287	-408	-432	-452	-471
Cost recovery	57	82	86	90	94
Total cost after recovery	-230	-326	-345	-362	-377

Notes

- Estimates are presented on an accruals basis as would appear in the budget and public accounts.
- Positive numbers subtract from the budgetary balance, negative numbers contribute to the budget balance.
- "-" = PBO does not expect a financial cost.