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Tax Alert – Canada

Preparing for digital services tax filing and payment obligations

EY Tax Alerts cover significant tax news, developments and changes in legislation that affect Canadian businesses. They act as technical summaries to keep you on top of the latest tax issues. For more information, please contact your EY advisor or EY Law advisor.

The filing and payment deadline under Canada's *Digital Services Tax Act* (DSTA) for the 2022, 2023 and 2024 calendar years is 30 June 2025.

In this Tax Alert, we briefly summarize the application of the digital services tax (DST) and the recent Canada Revenue Agency (CRA) guidance for filing DST returns and paying the tax.

Background

The DSTA, which came into force on 28 June 2024, aims to ensure that large businesses pay their fair share of Canadian tax with respect to certain revenue streams. In general, a large business may be liable for the DST if its total revenue from all sources (or total consolidated group revenue) is at least €750 million during a fiscal year that ends in the preceding calendar year, and its Canadian digital services revenue (or the total of all such revenue for all entities in their consolidated group) exceeds \$20 million CAD in the calendar year.

Even if tax is not payable, registration under the DSTA is required if a person's Canadian digital services revenue exceeds \$10 million CAD.

While the first year of application under the DSTA is 2024, the tax applies retroactively to 1 January 2022. As a result, taxpayers may also be subject to filing and payment requirements for the 2022 and 2023 calendar years.



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The following EY Tax Alerts provide additional information about the historical evolution of the DSTA:

- ▶ EY Tax Alert 2021 Issue No. 36, [Finance tables Digital Services Tax NWMM](#);
- ▶ EY Tax Alert 2023 Issue No. 36, [Canada moving ahead with its own digital services tax: revised draft legislation released](#);
- ▶ EY Tax Alert 2023 Issue No. 48, [Digital Services Tax Act has been tabled in the House of Commons](#); and
- ▶ EY Tax Alert 2024 Issue No. 37, [Entry-into-force date set for Canada's Digital Services Tax Act](#).

Application of the tax

The DSTA applies to large domestic and foreign businesses whose corporate group has global consolidated revenues of at least €750 million and who earn Canadian digital services revenue from providing online marketplace services, online advertising, social media services and the monetizing of user data in excess of \$20 million CAD.

If a taxpayer or its consolidated group meets the required conditions, the taxpayer(s) are required to pay a tax equal to 3% on their taxable Canadian digital services revenue in excess of \$20 million CAD in a calendar year. As indicated above, while the DSTA entered into force on 28 June 2024, it applies retroactively to 1 January 2022.

Canadian digital services revenue consists of Canadian online marketplace services revenue, Canadian online advertising services revenue, Canadian social media services revenue, and Canadian user data revenue.

- ▶ Canadian *online marketplace services revenue* means revenue generated from online marketplace platforms, from the provision of access to, or use of, an online marketplace, from commissions and other fees from facilitating supplies between users of the online marketplace, and from providing premium or optional services on the online marketplace. It does not include revenue from providing storage or shipping services at a reasonable rate of compensation.
- ▶ Canadian *online advertising services revenue* includes revenue generated from systems facilitating online targeted advertisements and digital spaces that display online targeted advertisements.
- ▶ Canadian *social media services revenue* includes revenue generated on social media platforms from the provision of access to, or use of, the social media platform, from premium or optional services associated with the platform, or from facilitating interactions either between users or between users and user-generated content on the platform. It does not include revenue from providing private communication services such as video calling, voice calling, email, or instant messaging, if the platform's sole purpose is to provide these services.

- ▶ Canadian *user data revenue* includes revenue generated from the sale or the granting of access to user data gathered from an online marketplace, a social media platform or an online search engine.

Canadian digital services revenue is also dependent on whether the revenue described above is associated with users in Canada. The sourcing determination varies according to revenue type and follows two general methods: revenue tracing to relevant users in Canada in accordance with transactional information or, if tracing is not possible, specific formulaic allocation.

Notably, Canadian digital services revenue is not restricted to revenue earned from persons in Canada, but includes revenue derived from activities of persons in Canada. For example, Canadian online advertising services revenue includes the revenue earned by a consolidated group that arises from a person in Canada viewing or interacting with an online targeted advertisement. The person paying for the advertisement may be located anywhere in the world, and the entity being paid for the advertisement may be outside Canada, but because the revenue arose from a Canadian viewer of the ad, the revenue constitutes "Canadian online advertising services revenue" for purposes of Canada's DST.

Each entity in the consolidated group that earns Canadian digital services revenue is required to register under the DSTA if the consolidated group meets the €750 million threshold and the consolidated group earns more than \$10 million CAD of Canadian digital services revenue.

Notably, the threshold for registration (\$10 million CAD) is lower than the threshold required for taxation (\$20 million CAD).

If a taxpayer or an affected member of a consolidated group is required to be registered, the taxpayer must apply to register for a DST program account by 31 January of the following calendar year.

A foreign or domestic business was required to register for a DST program account by 31 January 2025 if these thresholds apply in respect of the 2022, 2023 or 2024 calendar years.

To the extent that an entity fails to register in a timely manner, a \$20,000 CAD penalty applies, per entity pursuant to section 83 of the DSTA. While the CRA has the legislative authority to impose penalties with respect to late file registration requests, it is unclear whether it will grant any relief in this respect.

Designated entity election

Since the applicable thresholds are computed on a consolidated basis, each member of a consolidated group with any Canadian digital services revenue will be subject to registration and filing obligations, as well as tax liability. However, members of a consolidated group may designate a single entity to report DST on their collective behalf by jointly filing an election no later than 30 June of the following calendar year. An entity must have applied to register for a DST program account to be eligible for designation.

At the time of writing, there is no prescribed form for the election and the parties are not required to send the election to the CRA, unless the CRA asks to see it. The election must include the following information:

- ▶ The name of the ultimate parent entity of the consolidated group;
- ▶ The ultimate parent identity's tax identification number;
- ▶ The calendar year for which the election applies; and
- ▶ A statement that the members have made a joint election to designate an entity in accordance with subsection 46(1) of the DSTA.

The following information with respect to the designated entity and the group members making the election should also be included: (i) business names; (ii) business numbers with DST program account; (iii) the name, position, telephone number and email of the authorized officer; and (iv) the date and signature of the authorized officers.

Filing returns

DST returns are due annually on or before 30 June of the following calendar year. As noted above, for 2022, 2023 and 2024, the filing deadline is 30 June 2025.

If the members of a consolidated group have made a designated entity election, the return must be filed solely by the designated entity.

Returns must be filed through the CRA's application programming interface (API) using a JavaScript Object Notation schema. In brief, a taxpayer must first engage with the CRA's certification testing (CT) environment by using test data provided by the CRA. Once a taxpayer has successfully engaged with the CT environment, they will receive a production token. The taxpayer may then file a return using the production token, the business's 15-character business number with DST program identifier, and their access credentials.

Valid access credentials are either the taxpayer's EFILE number and password, or the digital access code provided in the CRA letter confirming the taxpayer's account registration.

The CRA has published the *Digital Services Tax Return Submission Guide*, which is intended to help users connect to the CRA's API and file DST returns. A person may obtain the guide by emailing the CRA at APISERs-IPADCS@cra-arc.gc.ca.

Given that the deadline to file is just around the corner, taxpayers should ensure that they have the information needed to file their DST returns. If DST returns are not filed in a timely manner, the CRA may assess a failure to file penalty pursuant to section 84 of the DSTA.

Payments

Payments must be made on or before 30 June of the following calendar year. The payment deadline for 2022, 2023 and 2024 is 30 June 2025.

Any payments that are \$10,000 CAD or more must be paid electronically unless the taxpayer cannot reasonably pay that amount electronically.

The DST liability must be paid by wire transfer and all such payments must be made in Canadian dollars. However, the minister may waive this requirement and accept a different currency. If a waiver is granted, the taxpayer must convert the amount from Canadian dollars to the other currency using a method approved by the minister.

After sending a wire transfer, remittance details must be provided to the CRA's revenue processing section by fax. The required remittance details include:

- ▶ The name of the business making the payment;
- ▶ The payor's business number and DST program account number;
- ▶ Information about the primary contact;
- ▶ The payment date;
- ▶ The payment amount; and
- ▶ The applicable calendar year.

If a designated entity makes a payment on behalf of a consolidated group, that entity must provide information about each entity in the group, including their business names, their business and DST program account numbers, and the amount of the total payment allocated to each entity.

Learn more

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