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October 2, 2024

The Honorable Chrystia Freeland
Minister of Finance
House of Commons
Ottawa, ON K1A 0A6

Sent via email: chrystia.freeland@fin.gc.ca

RE: The Digital Services Tax is Impacting Small Businesses, Not Just Large Corporations

Dear Minister Freeland,

I am writing to urge the Government of Canada to revoke the Digital Services Tax (DST) because of the damage it is causing, especially to small and medium-sized enterprises (SMEs) in Canada. The Canadian Marketing Association (CMA) represents private, public and NFP organizations of all sizes across the country, and our members are universally alarmed about the serious impact of the DST causing them.

According to the federal Bankruptcy Superintendent, business insolvencies in Canada have reached their highest level since the Great Recession. Starting a business in Canada is becoming increasingly expensive. A recent Shopify study found that the average new business spends around \$40,000 in its first year, with over 10% of that budget allocated to marketing.

Given this context, the federal government's decision to proceed with the DST is concerning, especially when most other countries in the Organization for Economic Co-operation and Development (OECD) are postponing similar measures.

While discussions about the DST's impact on trade relations are important, it is crucial to highlight how this tax is adversely affecting SMEs. SMEs contribute more than half of Canada's GDP and employ 63% of our workforce. They need our support, not additional burdens.

Recently, Google announced it would pass on the cost of the DST to advertisers by implementing a 2.5% surcharge on ads in Canada. Amazon immediately followed with a 3% "fixed digital services fee" for Canadian advertisers. Both of these pass-throughs take effect this month.

For small businesses that depend on digital advertising to promote their products, these additional costs can be catastrophic. For example, consider a clothing boutique, whose digital strategy is crucial for competing with fast-fashion giants. With an annual revenue of \$500,000 and a 10% profit margin, this boutique spends \$25,000 on Google advertising to drive sales, reaching approximately 200,000 potential customers and generating 5,900 sales at an average transaction value of \$84.75.



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With the 2.5% surcharge, the boutique will face an additional \$625 in costs, forcing them to reduce their advertising budget to \$24,375. This cut could lead to a loss of reach by 5,000 customers and result in 147 fewer sales, equating to a staggering \$12,458 in lost revenue—a nearly 25% reduction in profit. The impact will be even greater for businesses facing the 3% charge from Amazon and other platforms.

For small businesses, digital advertising is not optional; it is essential for survival. The DST ultimately penalizes these businesses, hindering their growth and ability to compete in an increasingly digital marketplace.

It is concerning that the government anticipated companies would pass these costs onto small business owners. It is both unfair and unacceptable for the government to expect small business owners to shoulder thousands of dollars in additional expenses for a tax designed for large corporations.

The Business Council of Canada has also recently called for the DST to be revoked, citing potential retaliatory measures by the U.S. that would harm Canadian businesses. This comes as U.S. Trade Representative Katherine Tai called the DST discriminatory and requested dispute consultations.

On behalf of our members across the country, I urge you to reconsider the implications of the DST on SMEs and to take steps that will foster a more supportive environment for them to thrive. It's not too late for the Canadian government to reverse course and save SMEs – the backbone of our economy – thousands of dollars a year.

We urge the government to revoke the DST now and wait for a multilateral agreement to be reached.

Thank you for your attention to this pressing issue. We would be pleased to schedule a meeting at your convenience to discuss the Digital Services Tax in more detail.

Regards,

A handwritten signature in black ink, appearing to read "Alison Simpson", is positioned above the typed name.

Alison Simpson
President and CEO