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Finance Canada
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Sent via email: Consultation-Legislation@fin.gc.ca

To Whom It May Concern:

On behalf of the Travel Technology Association ("Travel Tech") and our members, I respectfully submit the following comments concerning the Government of Canada's proposed *Digital Services Tax Act* ("DSTA").

Travel Tech represents the leading innovators in travel technology, including online travel agencies, metasearch engines, short-term rental platforms, global distribution systems, and travel management companies. We advocate for public policy to empower traveler choice and promote marketplace transparency, innovation, and competition. Now more than ever, travelers are navigating a multifaceted and ever-expanding travel marketplace. Hundreds of travel technology providers offer consumers access to a transparent and growing catalog of travel options.

The travel industry has indisputably been through a period of unprecedented turbulence over the last three years because of the global COVID-19 pandemic. Government travel restrictions and quarantine orders had an unparalleled impact on the travel industry, making it one of the hardest-hit sectors of the global economy. While travel has surely seen a rebound since 2020, the recovery is very much uneven market-by-market and now faces further challenges due to high interest rates and inflation-adjusted tourism expenditures globally. In all, the travel sector is still far from fully rebounding.

In this context, Canada's proposed DSTA comes at a time when our membership is largely still in recovery. A new, unilateral, and retroactive tax will negatively impact their operations and ability to empower traveler choice and market competition.

If Canada must move ahead with its unilateral DSTA, we would considerately submit the following:

1. **The Government of Canada should increase the DSTA threshold to align with OECD Pillar One, Amount A (i.e., EUR 20BN revenue and 10% Profit Before Tax margin).**

The revenue threshold a company must reach to be subject to Canada's proposed Digital Services Tax ("DST") is inappropriately low and inconsistent with the agreed-upon higher threshold of EUR 20BN under OECD Pillar One, Amount A. As OECD members, including Canada, have agreed to the multinational revenue threshold to be in scope of Pillar One, the thresholds adopted by Canada for its DST should be equivalent to the thresholds adopted at the OECD level. As a result of the current lack of equivalency, many of our members are captured under one threshold but not the other. As the DSTA is meant to be a replacement until Pillar One comes to fruition, it should be equivalent.

Further, a 10% profit before tax safe harbor should also be included to align with the OECD Framework – this is absolutely critical to competition. It is well understood that most businesses operating in the travel and tourism marketplace operate on low-profit margins. Introducing a further tax on those low margins without a safe harbor risks instability for our membership. Our members have little to no ability to pass on this tax to consumers, provided consumers (e.g., potential travelers to Canada) in this marketplace are most notably using travel tech organizations to explicitly seek price comparisons. It is therefore critical that these companies maintain price competitiveness.

2. **The Government of Canada should allow a credit for DST, or any similar tax, paid in another jurisdiction to avoid double taxation.**

If Canada ultimately decides to enact a domestic DST, less developed countries will likely follow suit and enact similar measures. This "domino effect" of domestic DSTs will add significant complexity to the global international tax framework, creating double or multiple taxation issues.

Indeed, provided there is no international coordination on the enactment of domestic DSTs, the multiplication of unilateral measures will lead to isolated transactions being subject to DST multiple times simply because the users who are being connected on travel technology platforms for a single transaction are not all located in the same country.

We appreciate that the proposed DSTA only imposes DST on 50% of revenue where one of the users is not located in Canada; however, this measure falls short of effectively avoiding double taxation on international transactions, since at least half of the revenue generated in an international transaction remains subject to double taxation if the DST due in the other country is applied to 100% of the revenue.

In addition, the language regarding revenue sourcing rules is ambiguous and confusing for some of our members. For some it is unclear which category they fall into and/or are excluded from.

We therefore encourage you to work with the business community to ensure that those companies who are required to comply can comply.

3. **The Government of Canada should remove the two-year retroactivity of the DST and apply it only to revenues occurred on or after the date of enactment.**

A tax of this magnitude should not be backward-looking, especially after years of good-faith negotiation. Canada should start collecting the tax only after enactment so that multinational organizations can fully analyze its impact after all potential amendments are made to the Act. This retroactive nature of the tax also impacts public companies' financial statement reporting which can impact shareholder and investor confidence.

In closing, Canada's determination to pursue a unilateral, retroactive DST following significant progress by the OECD/G20 Inclusive Framework – including the recent Outcome Statement that was signed by 138 members – threatens the still-active recovery of the global travel tech marketplace.

We urge the Government of Canada to reconsider its actions in light of the concerns highlighted in this submission and remain at your disposal for further consultation as necessary.

Sincerely,

Laura Chadwick

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