Business groups press Ottawa on digital tax as U.S. bill targets investors

The Globe and Mail (Ottawa/Quebec Edition) · 24 May 2025 · CLARE O'HARA RUDY MEZZETTA

Canada's business community is calling on Prime Minister Mark Carney to review the digital services tax that has triggered the U.S. government's proposed retaliatory taxes on Canadian companies and investors in U.S. securities.

U.S. President Donald Trump's massive domestic policy bill, which was passed by the U.S. House of Representatives on Thursday, includes a section targeting foreign jurisdictions that have implemented a digital services tax on large U.S. technology companies or have an undertaxed payments rule. Canada enacted its digital services tax in 2024 and has proposed implementing an undertaxed payments rule.

For countries that retain the targeted tax rules, Section 899 of the bill will increase the tax rate for Canadian companies and could cost investors who own U.S. securities up to $81-billion in additional taxes over seven years, according to an estimate by the Securities and Investment Management Association.

Anthony Quinn, the chief operating officer for the Canadian Association of Retired Persons, said the proposed tax increase is "deeply troubling" for his 255,000 members – many of whom rely heavily on income from U.S. investment in their retirement portfolios.

Mr. Quinn is calling on the federal government to prepare to re-evaluate the digital services tax if it becomes clear that the consequences of this policy "disproportionately hurt Canadian savers and retirees."

"Tax fairness must not come at the cost of economic self-harm," he added. "It's clear that powerful American interests – particularly in the tech sector – have flexed their political muscle in shaping this legislation."

While Canada's goal of tax fairness is laudable, Mr. Quinn says it cannot come at the cost of "severe and disproportionate penalties" for ordinary Canadians.

CARP is asking the federal government to immediately engage with the U.S. to make the case that Section 899 is not only "punitive" but "economically reckless," and will hurt retirees, pensioners and savers who "had no part in the policy dispute."

Canadian individuals who own U.S. securities are subject to a 15-per-cent withholding tax rate under the current Canada-u.s. tax treaty, which is lower than the statutory rate of 30 per cent. Under Section 899, however, the withholding rate could ultimately rise to 50 per cent.

Canadian corporations that receive dividends from U.S. subsidiaries are currently subject to a 5-per-cent withholding rate under the tax treaty between the U.S. and Canada, much lower than the standard rate of 30 per cent. That could also increase up to 50 per cent.

The Portfolio Management Association of Canada – which represents more than 320 investment managers – said the proposed bill is "creating substantial uncertainty" in the market.

"We are concerned that it could have far-reaching implications for Canadian investors – including pension funds – potentially discouraging both institutional and private investment in U.S.

securities," the association's president Katie Walmsley said in an e-mail.

The U.S. legislation is still required to be passed by the Senate and receive presidential approval before it can become law. The White House expects Mr. Trump to sign the final bill by July 4.

Kevyn Nightingale, leader of cross-border tax consulting with Levy Salis LLP in Toronto said he believes Section 899 will make it through.

"Knowing that the tax bill has made it this far, I would bet on some version of this passing," he said.

Ian Bragg, vice-president of research and statistics at SIMA, said the proposed measures would penalize ordinary Canadians saving for retirement and education, as well as create "unnecessary uncertainty in the market."

"It's critical that this issue be addressed at the highest levels of Canada-u.s. trade discussions to protect the savings and financial security of millions of Canadians," he said in an email.

For Canada's small-business community, Section 899 introduces more uncertainty for companies that are already trying to navigate through a tricky U.s.-canada trade war.

Dan Kelly, head of Canadian Federation of Independent Business, said while his organization has "generally" been supportive of the digital services tax to ensure fair tax treatment, that may be up for discussion under retaliatory threats.

"That support was in the absence of these kinds of threats and the question that now follows is whether it is worth it to jeopardize other parts of the Canada-u.s. relationship," Mr. Kelly said.

The challenge in negotiating with the U.S., Mr. Kelly said, is similar to early tariff discussions where Mr. Trump frequently changed his reasons for the tariffs on Canada.

"It's not a smart bargaining position for Canada to just lay down arms on every single item that President Trump happens to raise," he added.

"The Canadian government needs to have a comprehensive discussion with the business community and figure out what are we prepared to give on and what is most important to gain."

But Council of Canadian Innovator president Benjamin Bergen said in a Linkedin post that despite the rate hike, the organization continues to support the principle that large multinational tech companies must pay their fair share of taxes in the jurisdictions "where they generate value."

"Canada's innovation-driven companies rely on predictable and fair international tax treatment to invest, expand, and create highquality jobs," he wrote.